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**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

IN RE ZORAN CORPORATION  
DERIVATIVE LITIGATION

Civil Action No. 06-05503-WHA

**CONSOLIDATED VERIFIED  
DERIVATIVE COMPLAINT**

This Document Relates to:

**DEMAND FOR JURY TRIAL**

All Actions

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## I. NATURE OF THE ACTION

1. This is a shareholder’s derivative suit brought by Plaintiff Gerald Del Rosario, a shareholder of Zoran Corporation (“Zoran” or the “Company”), on behalf of nominal Defendant Zoran against certain current and former Zoran officers, as well as members of the Zoran Board of Directors for breaches of fiduciary duty, unjust enrichment, constructive fraud, abuse of control, corporate waste, gross mismanagement, rescission, and violations of federal securities laws.

2. The practice of backdating involves a company issuing stock options to an executive or Director on one date while providing documentation asserting that the options were actually issued earlier. For nearly ten years, between 1997 and 2005 (the “backdating period”), the Individual Defendants (as identified in Sections II.C and D below) abused their positions as fiduciaries of the Company and perpetrated a backdating scheme that diverted tens of millions of dollars from the Company coffers to certain Zoran officers and Directors by purposefully backdating stock option grants, that is, selecting false grant dates which coincided with the lowest stock trading points during a respective period.

3. In furtherance of the scheme, the Individual Defendants filed materially false and misleading disclosures with the Securities and Exchange Commission (“SEC”) and Internal Revenue Service (“IRS”), concealing their backdating practices over the course of nearly ten years, and subjecting the company to potential civil and criminal liability under applicable state and federal laws, including the Internal Revenue Code (“IRC”) and Securities Exchange Act of 1934, 15 U.S.C. § 78a, et seq. (the “Exchange Act”).

4. The Individual Defendants' scheme continued until May 2006, when a research report by the Center for Financial Research and Analysis ("CFRA") research report dated

1 May 16, 2006, identified Zoran as a company considered to be among those with the “highest  
2 risk for having backdated option grants.”

3 5. In a May 23, 2006 press release, Zoran assured its shareholders and the public that  
4 “[u]nder the direction of the Audit Committee, the Company’s management, assisted by outside  
5 counsel, conducted an internal compliance review and concluded that each of the option grants  
6 identified by the CFRA report had been properly made at a regularly-scheduled meeting of the  
7 Board of Directors or its Compensation Committee and that none of these grants had involved  
8 any ‘backdating.’” In fact, in the Company’s view, as of May 23, 2006, “all other grants made to  
9 the Company’s officers since Zoran’s initial public offering in 1995 ... have also been properly  
10 made.” *See, e.g.*, Press Release, Zoran Corporation, Zoran Corporation Responds to Report  
11 Regarding Option Grants (May 23, 2006), available at [www.zoran.com](http://www.zoran.com).  
12

13 6. This “internal compliance review” was managed by the very Defendants who for  
14 years had perpetrated and benefited from the wrongdoing.  
15

16 7. On July 3, 2006, the Company disclosed that the SEC and the U.S. Attorney for  
17 the Northern District of California had initiated investigations into Individual Defendants’  
18 backdating scheme. In response, the Company undertook another investigation into the  
19 backdating of its stock options. *See, e.g.*, Press Release, Zoran Corporation, Zoran Corporation  
20 Announces Creation of Special Committee To Continue Review of Stock Option Practices (July  
21 3, 2006), available at [www.zoran.com](http://www.zoran.com).  
22

23 8. On February 20, 2007, the Company issued a press release in which the Company  
24 admitted that “the appropriate measurement dates for financial accounting purposes of certain  
25 stock option grants differ from the recorded grant dates of those awards.” *See, e.g.*, Press  
26 Release, Zoran Corporation, Zoran Corporation Announces Completion of Stock Option Review  
27

1 And Expected restatement of historical Financial Statements (February 20, 2007), available at  
2 www.zoran.com.

3 9. The next day, on February 21, 2007, the Company filed a Form 8-K with the SEC  
4 disclosing the same information that had been included in the February 20, 2007 press release,  
5 but adding that:  
6

7 The Company will restate previously issued historical financial statements  
8 to correct its past accounting for certain stock option grants. It will record  
9 additional stock-based compensation expense and related tax impacts, and  
10 will also evaluate any other unrecorded adjustments previously determined  
11 to be immaterial. Accordingly, the financial statements and related notes,  
financial press releases and similar communications issued by the  
Company, relating to fiscal periods beginning on or after January 1, 1997  
should no longer be relied upon.

12 10. The Company also stated that “Zoran expects the aggregate amount of the  
13 additional non-cash compensation and other charges to be in the range of \$12 million to \$15  
14 million, recognized in various amounts over the years 1997 through 2005.”

15 11. Despite this admission, the Board of Directors has failed to take any remedial  
16 action against the Individual Defendants to recoup the Company’s losses and prevent the  
17 exercise of backdated grants in the future. In fact, in the midst of government investigations and  
18 the Company’s ongoing attempt to restate its materially false and misleading financial  
19 statements, the Board of Directors approved raises for the current executives, including those  
20 who perpetrated the backdating scheme.  
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1           12. As of the date of this Complaint, the Company is delinquent in its regulatory  
2 filings and subject to delisting from the NASDAQ securities exchange. The government's  
3 investigation is continuing.<sup>1</sup>

4           13. Furthermore, while the CFRA Report initially identified three grant dates as being  
5 "at risk for backdating," Plaintiff's statistical analysis reveals that a substantial number of the  
6 Company's option grants between 1997 and 2005 were likely backdated.

7           14. From at least 1997 through 2005, the Company granted more than five million  
8 stock options to various Zoran officers and Directors (including to every current Zoran Director),  
9 a significant number of which Plaintiff's statistical analysis indicates were backdated. The  
10 Individual Defendants received grants of stock options from the Company on unusually  
11 favorable dates, when Zoran stock was trading at or near the lowest price for any given period.  
12 When analyzed, it becomes clear that the timing and pattern of these option grants could not be a  
13 mere coincidence. A substantial number of the grants were backdated, in violation of applicable  
14 stock option plans, in order to provide the Individual Defendants with the largest possible return  
15 on their stock, at the expense of Zoran and its public shareholders. By their actions, the  
16 Individual Defendants, as officers and/or Directors of Zoran, breached the fiduciary duties of  
17 good faith, due care and loyalty that they owed to the Company and its public shareholders.

18           15. In furtherance of the backdating scheme, the Individual Defendants improperly  
19 reported and accounted for the stock option grants, in violation of Generally Accepted  
20 Accounting Principles ("GAAP") and SEC Rules. As a result, Zoran's financial statements, as

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21           <sup>1</sup> According to Zoran's Form 12b-25, Notification of Late Filing, filed March 2, 2007, the  
22 Company intends to file its Form 10-K for fiscal 2006 on March 15, 2007, the day after  
23 Plaintiff is required to file this Complaint. For this reason, it may become necessary for  
24 Plaintiff to amend his Complaint following a review of the Company's 2006 Form 10-K.



1 reported and filed with the SEC between at least fiscal years 1997 and 2005, including quarterly  
2 and annual reports disseminated to Zoran's shareholders and the public, among others, violated  
3 GAAP and SEC Rules, and contained materially false and misleading statements regarding the  
4 backdated option grants at issue here.

5  
6 16. In addition, Zoran's Proxy Statements, which contained materially false and  
7 misleading information, were not only filed with the SEC, but also disseminated to Zoran's  
8 shareholders as proxy solicitations within the meaning of Exchange Act § 14, 15 U.S.C. §  
9 78n(a), and Rule 14a-9 promulgated thereunder, 17 C.F.R. § 240.14a-9.

10 17. As a result of the Individual Defendants' stock option backdating scheme and  
11 related misconduct, the Individual Defendants have diverted millions of dollars of corporate  
12 assets to senior Zoran executives and Directors, caused Zoran to incur additional compensation  
13 expenses and tax liabilities, as well as loss of funds paid to Zoran upon the exercise of the  
14 options, and subjected Zoran to potential liability from regulators and other federal authorities,  
15 including the SEC and IRS.

16  
17 18. Moreover, according to Zoran Proxy Statements issued for fiscal years 1997 to  
18 2005, which are discussed in more detail below, the overwhelming majority of the options  
19 granted to the Officer Defendants have yet to expire. Thus, the Officer Defendants are in  
20 continued breach of their fiduciary obligations and the opportunity for further unjust enrichment  
21 of the Officer Defendants continues.

22  
23 19. The Officer Defendants continue to hold more than two million options grants,  
24 the majority of which were awarded as part of the backdating scheme and during the time period  
25 in which the Company has admitted that backdating did occur. Thus, the Officer Defendants  
26  
27

1 have not yet completed their backdating scheme and may continue to deprive the Company and  
2 its shareholders by extracting compensation that exceeds the fair value of the exercised options.

## 3 **II. PARTIES**

### 4 **A. Plaintiff**

5 20. Plaintiff Gerald del Rosario is a resident of the District of Columbia and a Zoran  
6 shareholder. During the relevant time period in which the Individual Defendants' breaches and  
7 manipulative conduct injured the Company and its shareholders, Plaintiff held, and continues to  
8 hold, shares of Zoran stock. Plaintiff acquired his shares in connection with the merger of Zoran  
9 and Oak Technology, Inc. in August 2003, during the course of the Individual Defendants'  
10 backdating scheme.  
11

### 12 **B. Nominal Defendant**

13 21. Nominal Defendant Zoran was incorporated in California in December 1981 and  
14 reincorporated in Delaware in 1996. Zoran is headquartered in Sunnyvale, California. The  
15 Company's stock is publicly traded on NASDAQ under the ticker symbol "ZRAN." According  
16 to its recent press releases and SEC filings, Zoran "is a leading provider of digital solutions for  
17 applications in the growing digital entertainment and digital imaging markets. With two decades  
18 of expertise developing and delivering digital signal processing technologies, Zoran has  
19 pioneered high performance digital audio and video, imaging applications, and Connect and  
20 Share technologies for the digital home." *See, e.g.* Press Release, Zoran Corporation, Zoran  
21 Corporation Announces Creation of Special Committee to Continue Review of Stock Option  
22 Practices (July 3, 2006), available at [www.zoran.com](http://www.zoran.com).  
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1 **C. Officer Defendants**

2 22. Defendant Aharon Aharon was Zoran's Senior Vice President and Chief  
3 Operating Officer from October 1998 to October 2001; Vice President of Engineering from  
4 August 1997 to October 1998; and Vice President, Engineering-Haifa Operations from February  
5 1997 to August 1997. During his tenure, Aharon exercised at least 126,041 stock options, many  
6 of which were initially granted on dates within the time period in which the Company has  
7 admitted that backdating occurred. Since the beginning of the backdating period alleged herein,  
8 Aharon sold at least 130,886 shares of Zoran stock, including shares obtained by exercising  
9 options granted to him by the Company, for proceeds of more than \$4.9 million.  
10

11 23. Defendant Levy Gerzberg was a co-founder of Zoran in 1981 and has been  
12 Zoran's President and Chief Executive Officer since December 1988 and a Director since 1981.  
13 Dr. Gerzberg was also Zoran's President from 1981 to 1984 and Zoran's Executive Vice  
14 President and Chief Technical Officer from 1985 to 1988. As a member of the Board, during his  
15 tenure, Gerzberg reviewed, signed and approved the filing and dissemination of all of the  
16 Company's annual financial statements and reports. As Zoran's CEO, he was intimately and  
17 directly involved in the granting and approval of stock options under all of the Stock Option  
18 Plans in place at Zoran, including the 1993 Stock Option Plan, 1995 Outside Directors Stock  
19 Option Plan, 2005 Equity Incentive Stock Option Plan, and the 2005 Outside Directors Equity  
20 Plan.<sup>2</sup> During his tenure, Gerzberg has exercised at least 698,057 stock options, many of which  
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22

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23 <sup>2</sup> Plaintiff interviewed a confidential witness ("CW #1"), who worked in human resources as a  
24 benefits administrator during 2006 and attests that all stock options had to be pre-approved by  
25 Gerzberg before they were granted. First, Gerzberg would determine the estimated number of  
26 grants each employee was entitled to, and then, once the specific number of grants had been  
27 determined, he would authorize the final number of grants to be awarded.

1 were initially granted on dates within the time period in which the Company has admitted that  
2 backdating occurred. Since the beginning of the backdating period alleged herein, Gerzberg sold  
3 at least 760,637 shares of Zoran stock, including shares obtained by exercising options granted to  
4 him by the Company, for proceeds of more than \$24 million. Gerzberg received a base salary of  
5 \$437,500 in 2006. On February 15, 2007, the Compensation Committee of the Company's  
6 Board of Directors approved a raise for Gerzberg, setting his 2007 base salary at \$455,000 with a  
7 target bonus of 100%.

9         24. Defendant Paul R. Goldberg was Zoran's Vice President of Audio Products and  
10 Intellectual Properties from October 1998 to approximately January 2001, and Vice President,  
11 Systems Solutions from June 1996 to October 1998. During his tenure, Goldberg exercised at  
12 least 23,750 stock options, many of which were initially granted on dates within the time period  
13 in which the Company has admitted that backdating occurred. Since the beginning of the  
14 backdating period alleged herein, Goldberg sold at least 53,427 shares of Zoran stock, including  
15 shares obtained by exercising options granted to him by the Company, for proceeds of more than  
16 \$2 million.

18         25. Defendant Camillo Martino was Zoran's Executive Vice President and Chief  
19 Operating Officer from August 2001 until July 2005. During his tenure, Martino exercised at  
20 least 65,022 stock options, many of which were initially granted on dates within the time period  
21 in which the Company has admitted that backdating occurred. Since the beginning of the  
22 backdating period alleged herein, Martino sold at least 32,601 shares of Zoran stock, including  
23 shares obtained by exercising options granted to him by the Company, for proceeds of more than  
24 \$840,000.

1           26. Defendant Karl Schneider is Zoran's Vice President, Finance and Chief Financial  
2 Officer, a position he has held since July 1998. He was also the Company's Corporate  
3 Controller from January 1998 to July 1998. As CFO, Schneider was intimately involved in all  
4 aspects of the stock option approval process at Zoran.<sup>3</sup> Schneider actively participated in the  
5 preparation, review, and approval of all of the Company's financial statements, earnings releases  
6 and/or other filings with the SEC for at least fiscal years 1998 through 2005. In particular,  
7 Schneider certified the accuracy of the Company's financial statements pursuant to § 302 of the  
8 Sarbanes-Oxley Act of 2002 (also referred to herein as "SOX"), despite knowing that the  
9 backdating scheme necessarily resulted in the Company's violation of GAAP and rendered its  
10 financial statements dating back to 1997 materially misleading and unreliable. During his  
11 tenure, Schneider exercised at least 113,200 stock options, many of which were initially granted  
12 on dates within the time period in which the Company has admitted that backdating occurred.  
13 Since the beginning of the backdating period alleged herein, Schneider has sold at least 135,339  
14 shares of Zoran stock, including shares obtained by exercising options, for proceeds of more than  
15 \$4 million. Schneider received a base salary of \$210,000 in 2006. On February 15, 2007, the  
16 Compensation Committee of the Company's Board of Directors approved a raise for Schneider,  
17 setting his 2007 base salary at \$287,000.

18           27. Defendant Isaac Shenberg is Zoran's Senior Vice President, Business and  
19 Strategic Development, a position he has held since October 1998. He was also the Company's  
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24 <sup>3</sup> Plaintiff's second confidential witness ("CW #2") worked at Zoran between 2000 and 2003 as  
25 an executive assistant. CW #2 attests that, during her tenure the CFO, Defendant Schneider,  
26 was integral in every aspect of the options grant process at the Company. CW #2 also attests  
27 that Defendant Gerzberg, Zoran's CEO, was integral in the options process, along with the  
28 Chief Operating Officers, Defendants Aharon and Martino, and the Board of Directors itself.

1 Vice President, Sales and Marketing from January 1995 through October 1998 and Product Line  
2 Business Manager from August 1990 until January 1995. During his tenure, Shenberg exercised  
3 at least 188,625 stock options, many of which were initially granted on dates within the time  
4 period in which the Company has admitted that backdating occurred. Since the beginning of the  
5 backdating period alleged herein, Shenberg has sold at least 195,625 shares of Zoran stock,  
6 including shares obtained by exercising options granted to him by the Company, for proceeds of  
7 more than \$5 million. Shenberg received a base salary of \$210,000 in 2006. On February 15,  
8 2007, the Compensation Committee of the Board of Directors approved a raise for Shenberg,  
9 setting his 2007 base salary at \$218,400.  
10

11 28. Defendant Alex Sinar was Zoran's Vice President of Operations from February  
12 1997 to February 1999 and the Company's Director of Manufacturing from January 1995 to  
13 February 1997. Sinar also supervised the Company's Quality Assurance and Technology groups  
14 from 1990 to 1992 and the Company's Product Engineering group from 1990 to 1992. He also  
15 held positions with the Company in the areas of process development, product and test  
16 engineering, reliability and quality. During his tenure, Sinar exercised at least 24,000 stock  
17 options, many of which were initially granted on dates within the time period in which the  
18 Company has admitted that backdating occurred. Since the beginning of the backdating period  
19 alleged herein, Sinar has sold at least 23,625 shares of Zoran stock, including shares obtained by  
20 exercising options granted to him by the Company, for proceeds of more than \$1.2 million.  
21

22 29. The Defendants identified in Paragraphs 22 to 28 are collectively referred to as  
23 the "Officer Defendants."  
24  
25  
26  
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1 **D. Compensation Committee and Audit Committee Defendants**

2 30. Defendant Uzia Galil is a member of the Zoran Board of Directors, a position he  
3 has held since 1983. He has been Chairman of the Board since October 1993. Galil was a  
4 member of the Board's Audit Committee from 2001 until he was replaced by David Rynne in  
5 April 2006. While on the Audit Committee, he was one of the Company's two designated  
6 "financial experts" under SEC Regulation S-K, meaning, among other things, that Galil  
7 purported to have an understanding of GAAP and financial statements as well of internal  
8 controls and procedures. He has been a member of the Compensation Committee since at least  
9 1996 and has been the Chairman of the Compensation Committee since at least 2004. The  
10 Compensation Committee approved the award of stock options to Zoran employees, officers, and  
11 Directors from 1997 through 2005. As a member of the Board, during his tenure, Galil  
12 reviewed, signed and approved the filing and dissemination of all of the Company's annual  
13 financial statements and reports.  
14

15 31. Defendant James A. Meindl is a member of Zoran's Board of Directors, a position  
16 he has held since March 1986. He was a member of the Audit Committee from at least 1996  
17 until April 2005 when he was replaced by Defendant James B. Owens, Jr. Meindl has been a  
18 member of the Compensation Committee since April 2004, when he replaced Owens, and was a  
19 member of the Nominating and Corporate Governance Committee in 2001. As a member of the  
20 Board, during his tenure, Meindl reviewed, signed and approved the filing and dissemination of  
21 all of the Company's annual financial statements and reports. Since the beginning of the  
22 backdating period alleged herein, Meindl has sold at least 128,166 shares of Zoran stock,  
23 including shares obtained by exercising options granted to him by the Company, for proceeds of  
24 more than \$4.6 million.  
25  
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1           32. Defendant Arthur B. Stabenow is a member of Zoran's Board of Directors, a  
2 position he has held since November 1990. Stabenow has been a member of the Company's  
3 Audit Committee since at least 1996 and has acted as the Audit Committee Chairman since at  
4 least 2004. While on the Audit Committee, he was one of the Company's two designated  
5 "financial experts" under SEC Regulation S-K, meaning, among other things, that Stabenow  
6 purportedly has an understanding of GAAP and financial statements as well as internal controls  
7 and procedures. Stabenow also has been a member of the Compensation Committee since at  
8 least 1996 and a member of the Nominating and Corporate Governance Committee since the  
9 Committee was established in January 2001. The Compensation Committee approved the award  
10 of stock options to Zoran employees, officers, and Directors for the fiscal years 1997 through  
11 2005. As a member of the Board, during his tenure, Stabenow reviewed, signed and approved  
12 the filing and dissemination of all of the Company's annual financial statements and reports.  
13 Since the beginning of the backdating period alleged herein, Stabenow has sold at least 29,166  
14 shares of Zoran stock, including shares obtained by exercising options granted to him by the  
15 Company, for proceeds of more than \$1.3 million.

16  
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18           33. Defendant James B. Owens, Jr. has been a member of Zoran's Board of Directors  
19 since May 2003. He was a member of the Compensation Committee from 2003 until April 2004,  
20 when he was replaced by Defendant Meindl. Owens has been a member of the Audit Committee  
21 since April 2005 when he replaced Defendant Meindl. He has been a member of the Nominating  
22 and Corporate Governance Committee since 2002. As a member of the Board, during his tenure,  
23 Owens reviewed, signed and approved the filing and dissemination of all of the Company's  
24 annual financial statements and reports.  
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1           34. Defendant Raymond A. Burgess has been a member of Zoran's Board of  
2 Directors since April 2005 and a member of the Audit Committee since April 26, 2005. As a  
3 member of the Board, during his tenure, Burgess reviewed, signed and approved the filing and  
4 dissemination of all of the Company's annual financial statements and reports.

5           35. Defendants Galil, Meindl, Stabenow, and Owens are referred to collectively as the  
6 "Compensation Committee Defendants."  
7

8           36. Defendants Galil, Meindl, Stabenow, Owens, and Burgess are referred to  
9 collectively as the "Audit Committee Defendants."

10           37. Defendants Gerzberg, Galil, Meindl, Stabenow, Owens, and Burgess are also  
11 referred to collectively as the "Director Defendants."  
12

13           38. While identified collectively, and while all participated in the ongoing backdating  
14 scheme during the relevant period, Plaintiff alleges that the Defendants identified in Paragraphs  
15 30 through 34 above are liable only for the misconduct during their tenure on the Audit and/or  
16 Compensation Committees, and not for those backdated grants issued before or after they were  
17 on a committee.

18           39. Defendants Aharon, Gerzberg, Goldberg, Schneider, Shenberg, Sinar, Meindl,  
19 and Stabenow are referred to collectively herein as the "Insider Selling Defendants."  
20

21           40. The Defendants identified in Paragraphs 22 through 34 are referred to collectively  
22 herein as the "Individual Defendants."

23 **E. Non-Defendant Directors**

24           41. David Rynne has been a Director of the Company since August 2003, and he  
25 replaced Galil as a member of the Compensation Committee on April 19, 2006. As a member of  
26  
27

1 the Board, during his tenure, Rynne reviewed, signed and approved the filing and dissemination  
2 of all of the Company's annual financial statements and reports.

3 42. Philip Young has been a Director of the Company since 1986. Young is currently  
4 on the Nominating and Corporate Governance Committee. The Nominating and Corporate  
5 Governance Committee is responsible for identifying and considering qualified candidates for  
6 appointment and nomination to the Zoran Board and recommending corporate governance  
7 principles, codes of conduct and compliance mechanisms, and evaluation of the Board for the  
8 Company. As a member of the Board, during his tenure, Young reviewed, signed and approved  
9 the filing and dissemination of all of the Company's annual financial statements and reports.  
10

### 11 **III. JURISDICTION AND VENUE**

12 43. This Court has federal question jurisdiction over the subject matter of this action  
13 pursuant to 28 U.S.C. § 1331, and § 27 of the Exchange Act, 15 U.S.C. § 78aa, because Plaintiff  
14 asserts claims under that Act and the Rules promulgated thereunder. Alternatively, this Court  
15 has jurisdiction over the non-federal claims asserted herein under 28 U.S.C. § 1332 as the Parties  
16 are citizens of different states and the amount in controversy in this matter exceeds \$75,000,  
17 exclusive of interest and costs. This Court also has supplemental jurisdiction pursuant to 28  
18 U.S.C. § 1367(a).  
19

20 44. The claims asserted herein arise under §§ 10(b) and 14(a) of the Exchange Act, 15  
21 U.S.C. §§ 78j(b) and 78n(a), and under applicable state law for breaches of fiduciary duty,  
22 constructive fraud, abuse of control, corporate waste, gross mismanagement, rescission, and  
23 unjust enrichment. In connection with the acts, conduct and other wrongs complained of herein,  
24 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,  
25 the United States mail and the facilities of the national securities market.  
26  
27

1           45. Venue is proper in this District because one or more Defendants either resides or  
2 maintains offices in this District, and a substantial portion of the alleged wrongdoing occurred in  
3 this District. Moreover, the Individual Defendants have received substantial compensation in  
4 this District by doing business here and engaging in numerous activities that had an effect in this  
5 District.  
6

7           **IV. THE INDIVIDUAL DEFENDANTS' FIDUCIARY DUTIES OWED TO ZORAN**

8           46. Zoran's Directors, officers, and/or fiduciaries, and because of their ability to  
9 control Zoran's business, corporate and financial affairs, each of the Individual Defendants,  
10 owed Zoran and public shareholders the following fiduciary duties in their management and  
11 administration of the affairs of the Company and in the use and preservation of corporate assets:  
12

13           a. Good Faith. The duty to act at all times in good faith and in the best  
14 interests of the company and its shareholders, and to avoid action that results in a waste of  
15 corporate assets.

16           b. Due Care. The duty to take all reasonable steps to be informed with  
17 respect to the decision in question and operate in a manner reasonably believed to be in the best  
18 interests of the company, with the care of ordinarily prudent persons in a like position and under  
19 similar circumstances.

20           c. Loyalty. Defined by courts in broad and unyielding terms, the duty of  
21 loyalty mandates that the best interest of the corporation and its shareholders takes precedence  
22 over any interest possessed by a Director, officer, or controlling shareholder and not shared by  
23 the shareholders generally.  
24

25           47. In order to satisfy these fiduciary obligations, the Individual Defendants were  
26 required to exercise reasonable and prudent supervision over the management, policies, practices  
27

1 and controls of the Company and to exercise their utmost ability to control and manage the  
2 Company in a fair, just, honest, and equitable manner, in the best interests of Zoran and its  
3 shareholders. The Individual Defendants' fiduciary obligations did not allow them to act in  
4 furtherance of their own self-interest, to the detriment of the Company and its shareholders.

5  
6 48. The Individual Defendants owed a duty to Zoran and its shareholders to ensure  
7 that Zoran and its Directors, officers and agents operated in compliance with all applicable  
8 federal and state laws, rules and regulations, and that Zoran did not engage in any unsafe,  
9 unsound, or illegal business practices.

10 49. The Individual Defendants were further required to remain informed of Zoran's  
11 operations and, upon receiving notice or information of unsafe, imprudent, unsound or illegal  
12 practices, to make a reasonable investigation into and take steps to correct the practices. The  
13 Individual Defendants' duties included, but were not limited to, maintaining and implementing  
14 an adequate system of internal accounting, as well as other financial controls and reporting, and  
15 gathering and reporting information internally, to allow the Individual Defendants to perform  
16 their oversight function properly and to prevent the use of corporate assets and non-public  
17 corporate information for personal profit.

18  
19 50. The Individual Defendants were also required to supervise the preparation, filing,  
20 and/or dissemination of Zoran's SEC filings, press releases, audits, reports, and other publicly  
21 disseminated communications and information, and to examine and monitor the practices,  
22 products or conduct of Zoran's officers, and to accurately disclose all material facts concerning  
23 the Company set forth herein.

24  
25 51. In addition, the Individual Defendants were required to preserve and enhance  
26 Zoran's reputation as a publicly-traded company, and to maintain public trust and confidence in  
27

1 Zoran as a prudently managed corporate entity fully capable of meeting its duties and  
2 obligations, including its public reporting obligations.

3 52. In violation of these duties, as well as GAAP and applicable SEC rules and  
4 regulations, the Individual Defendants failed to accurately record, process, summarize, and  
5 report the Company's financial data.

6 53. Specifically, the Officer Defendants and Compensation Committee Defendants  
7 breached their fiduciary duties by backdating the option grants in violation of applicable  
8 shareholder approved stock option plans and applicable federal and state laws, rules and  
9 regulations as described more fully in the Counts below.

10 54. Similarly, all Individual Defendants, including the Officer Defendants,  
11 Compensation Committee Defendants and Audit Committee Defendants, breached their  
12 fiduciary duties by: (a) failing to account for and report the options backdating; (b) filing and  
13 disseminating to Zoran shareholders and the public false financial statements that improperly  
14 reported the backdated option grants and concealed the improper backdating of stock options;  
15 and (c) filing and disseminating to Zoran shareholders and the public false proxy statements and  
16 false Form 4 filings in order to conceal the improper backdating of stock options.

17 55. As a direct and proximate result of the Individual Defendants' fiduciary breaches,  
18 the Company has sustained millions of dollars in damages. The Individual Defendants have  
19 diverted millions of dollars of corporate assets to senior Zoran officers and Directors, caused  
20 Zoran to incur additional compensation expenses and tax liabilities, as well as loss of funds paid  
21 to Zoran upon the exercise of the options, and subjected Zoran to potential liability from  
22 regulators, including the SEC and IRS.

1           56.     The vast majority of the options granted to the Individual Defendants have not  
2 expired. Thus the Individual Defendants are in continued breach of their fiduciary obligations  
3 and the opportunity for further unjust enrichment exists to this day.

4  
5                               **V.     SUBSTANTIVE ALLEGATIONS**

6           **A.     Background**

7           57.     Under accounting rules in effect prior to 2004, public companies in the United  
8 States were permitted to grant stock options to employees without recording an expense, so long  
9 as the options' strike price was at or above the market's closing price for the stock on the day the  
10 options were granted. If the option granted was priced below the market price on the date  
11 granted, known as an "in the money" options grant, SEC regulations required that any publicly  
12 traded company recognize and record the difference as a compensation expense in their financial  
13 statements. *See, e.g.*, APB 25, superseded in 2004 by FAS 123(R). Accounting rules also  
14 required that companies recognize the same compensation expense if "in the money" options  
15 were granted to non-employees. Thus while "in the money" stock options are more valuable to  
16 those to whom they are granted, the additional expenses, if disclosed, reduce the total amount of  
17 net income reported to shareholders of a publicly traded company.

18  
19           58.     Stock options granted to company insiders must be approved in advance by the  
20 Company's Board of Directors and disclosed in order to comply with SEC regulations and  
21 reporting requirements. *See, e.g.*, Regulation S-K. Such approval can be extended through pre-  
22 approval of a prescribed option grant plan or through discretionary grants that are individually  
23 reviewed and approved.

24  
25           59.     In order to maximize remuneration to its officers and employees, and to attract  
26 non-employee executives to the Company's ranks without impacting its reported income, the  
27

1 Individual Defendants engaged in a practice of backdating the issue date of stock options to  
2 certain key personnel.

3 60. On information and belief, the Compensation Committee Defendants issuing the  
4 grants and the Officer Defendants receiving each grant would review historical stock prices  
5 before issuing stock options to determine the date upon which stock prices were significantly  
6 below the current market price. They would then falsify the relevant documents to make it  
7 appear as if the stock options were granted on the earlier date.  
8

9 61. As a result, the executive to whom the options were granted could realize the gain  
10 observed between the historical and actual grant date while the Company's records would appear  
11 to show no difference between the option price and the market price on the purported date of the  
12 grant, thereby avoiding both the reporting requirement and the additional compensation expense.  
13

14 62. This practice of backdating stock, though widespread, remained virtually  
15 undetected until academic research revealed patterns of stock option grants that could not be  
16 explained by chance. These studies noted the frequency with which stock option grants occurred  
17 just after a drop in stock price and immediately before the price rose, often at the lowest price of  
18 the year. Such timing could not be statistically explained by random selection of grant dates.  
19 One study hypothesized that the dates of the grants had been selected retroactively. Such  
20 retroactive dating, or "backdating" would permit the grantor to select the most advantageous  
21 price for the stock option and in effect create an "in the money" stock grant (one in which the  
22 actual stock price exceeds the option price on the day granted), that would appear as if it was  
23 granted while the stock price was low. Since companies are required to report "in the money"  
24 grants as compensation to the recipient and as a charge to the corporation, the practice of  
25 backdating would provide a means to confer additional stock value, or compensation, to officers  
26  
27

1 and employees that was not detectable, thereby permitting the Company to conceal the additional  
2 compensation and forego reporting or recording the charge.

3 63. The academic research did not identify specific companies that had engaged in  
4 these practices, although it apparently triggered increased scrutiny by the SEC and other  
5 government officials.

6  
7 64. The practice was publicly disclosed on March 18, 2006, when The Wall Street  
8 Journal published *The Perfect Payday*, in which it described stock option backdating practices by  
9 a number of companies at which executives had achieved stock paydays the likelihood of which  
10 far exceeded that of winning the lottery, which defied random chance. The Wall Street Journal,  
11 together with finance professors Eric Lie, of the Tippie College of Business at the University of  
12 Iowa, David Yermack, of New York University Stern School of Business, and Professor John  
13 Emerson, a statistician at Yale University, studied patterns of particularly favorable stock grants  
14 at certain companies and calculated the probability of such patterns occurring randomly and  
15 concluded that the odds were improbable. The Journal reported, for example, that all six of the  
16 stock options granted by ACS to its former CEO Jeffrey Rich displayed a pattern of profitability  
17 that could not be explained by chance:  
18

19 In a striking pattern all six of his stock-option grants from 1995 to 2002  
20 were dated just before a rise in the stock price, often at the bottom of a  
21 steep drop.

22 Just lucky? A Wall Street Journal analysis suggests the odds of this  
23 happening by chance are extraordinarily remote – around one in 300  
24 billion. The odds of winning the multistate Powerball lottery with a \$1  
25 ticket are one in 146 million.

26 Suspecting such patterns aren't due to chance, the Securities and  
27 Exchange Commission is examining whether some options carry favorable  
28 grant dates for a different reason: They were backdated.



1 Charles Forelle and James Bandler, *The Perfect Payday*, The Wall Street Journal, March 18,  
2 2006.

3  
4 65. Since the date of The Wall Street Journal article, more than 130 companies have  
5 reported internal and/or governmental investigations of their backdating practices. Charles  
6 Forelle and Nick Wingfield, *Zoran Spots More Options Missteps*, The Wall Street Journal,  
7 Aug. 4, 2006; *Perfect Payday Options Scorecard*, The Wall Street Journal (updated regularly,  
8 available at <http://online.wsj.com/public/resources/documents/info-optionsscore06-full.html>).  
9 Additional research by Professor Lie suggests that between the period 1996-2005, 18.9% of  
10 unscheduled “in the money” option grants to top executives were backdated or manipulated, by  
11 nearly one-third of the companies investigated.  
12

13 66. Revelations of backdated stock options have been made by companies across  
14 several business sectors and geographic regions. A disproportionate number of these revelations,  
15 however, have come from technology companies in Silicon Valley, where stock options are  
16 frequently used to attract employees and increasingly lavished upon executives. Rank and file  
17 employees who received backdated options have now found themselves subject to unforeseen tax  
18 liabilities and, in some instances, barred from exercising their own vested securities. As reported  
19 by the San Jose Mercury News:  
20

21 Across Silicon Valley and the nation, hundreds of thousands of  
22 workers who played no role in manipulating options nonetheless  
23 could pay a price, from lost stock options and lost investment  
24 opportunities to looming tax bills. And dozens of companies have  
25 imposed indefinite “blackout” periods .... While companies  
26 struggle to restate past earnings and report current financial results.  
27

1 Mark Schwanhausser, *Average Worker Takes A Hit: Tax Bill Headaches Looming For Rank-*  
2 *and-File*, San Jose Mercury News, January 29, 2007; online at  
3 [http://www.mercurynews.com/search/ci\\_5110094](http://www.mercurynews.com/search/ci_5110094).

4 67. As the scrutiny intensifies, backdating has been revealed not only as a practice to  
5 maximize the grant recipients' gain, while concealing company expenses, but also as a tax  
6 avoidance vehicle for some executives. Reporting on an analysis written by an economist at the  
7 SEC, the San Jose Mercury News reported, "[i]n a new wrinkle in the scandal over backdating  
8 stock options, an analyst has found evidence that some executives manipulated the exercise dates  
9 of their options in order to cheat on their taxes." Marcy Gordon, *SEC: Backdating done to avoid*  
10 *paying more taxes*, San Jose Mercury News, December 13, 2006; online at  
11 [http://www.mercurynews.com/search/ci\\_4831931](http://www.mercurynews.com/search/ci_4831931).  
12

13 68. Assessing the practice of backdating stock options, former SEC Commissioner  
14 Harvey Pitt recently wrote in an opinion column for Forbes:  
15

16 What's so terrible about backdating options grants?

17 For one thing, it likely renders a company's proxy materials false and  
18 misleading. Proxies typically indicate that options are granted at fair  
19 market value. But if the grant is backdated, the options value isn't fair--at  
least not from the vantage point of the company and its shareholders.

20 More fundamentally, the financial statements of a company that has  
21 engaged in backdating may require restatement. The options may not be  
22 deductible, and the expenses, as well as the various periods to which they  
may have been allocated, may also be incorrect. These factors would  
require a restatement, with class action litigation in the offing.

23 More to the point, what does this kind of conduct say about those who do  
24 it and those who allow it to occur (either wittingly or unwittingly)?

25 Those who backdate options grants violate federal and state law. And  
26 those on whose watch this conduct occurs are also potentially liable: If  
27 they knew about the backdating, they're participants in fraudulent and

1 unlawful conduct. If they didn't know about the backdating, the question  
2 will be: Should they have done more to discover it?"

3 Harvey Pitt, *The Next Big Scandal*, Forbes Magazine, May 26, 2006; online at  
4 [http://www.forbes.com/2006/05/25/hpitt-column-stockoption-cx\\_hp\\_0526nextbigscandal.html](http://www.forbes.com/2006/05/25/hpitt-column-stockoption-cx_hp_0526nextbigscandal.html).

5 69. Like the stock options examined by The Wall Street Journal, the pattern of option  
6 grants to Zoran executives is more than randomly fortuitous. The more likely reason for the  
7 extraordinary pattern exhibited by Zoran is that the Officer Defendants' stock options were  
8 improperly backdated, as alleged herein.

9  
10 **B. Revelation of Backdating at Zoran**

11 70. On May 16, 2006, CFRA issued a report in which it announced that it considered  
12 Zoran to be among those companies with the "highest risk for having backdated option grants."  
13 CFRA identified three sets of Zoran's options grants in particular, made in August 1998, August  
14 1999 and September 2001.

15 71. On May 23, 2006, Zoran disclosed the CFRA report and stated that the Company  
16 had initiated an internal investigation of all grants made since its initial public offering in 1995.  
17 The Company's press release, issued through the Audit Committee and Company management,  
18 stated in part:  
19

20 Zoran Corporation responded today to a report by the Center for  
21 Financial Research and Analysis ("CFRA") that identified Zoran  
22 as one of 17% of the companies in a survey conducted by CFRA  
23 that they considered to be "at risk for having backdated option  
24 grants." The CFRA report, which was issued on May 16, 2006,  
25 uses statistical data and draws inferences based on the timing of  
26 stock option grants to officers. The report cited three specific sets  
27 of Zoran option grants, in August 1998, August 1999, and  
28 September 2001.

Upon learning of the CFRA report, the Company referred  
the matter to the Audit Committee of its Board of Directors for

1 review. Under the direction of the Audit Committee, the  
2 Company's management, assisted by outside counsel, conducted  
3 an internal compliance review and concluded that each of the  
4 option grants identified by the CFRA report had been properly  
5 made at a regularly-scheduled meeting of the Board of Directors or  
6 its Compensation Committee and that none of these grants had  
7 involved any "backdating." Management has also conducted a  
8 broader review of all other option grants made to the Company's  
9 officers since Zoran's initial public offering in 1995 and has  
10 reported to the Audit Committee that, in the opinion of  
11 management, all such grants have also been properly made.  
12 Management's conclusion with respect to these additional option  
13 grants is still under review by counsel and the Audit Committee.

14 *See, e.g.,* Press Release, Zoran Corporation, Zoran Corporation Responds to Report Regarding  
15 Option Grants (May 23, 2006), available at [www.zoran.com](http://www.zoran.com).

16 72. There are several inescapable problems with the Company's investigation. The  
17 investigation, which only lasted seven days, was conducted by Company "management,"  
18 presumably including Defendants Gerzberg, Schneider, and Shenberg, *who were the recipients*  
19 *of the options identified and questioned by CFRA in its report*, and the same Audit Committee  
20 that shares fault for having allowed the grants to be made in the first place. Nevertheless, at the  
21 behest of these Defendants, the Directors acquiesced to the report – essentially ratifying the  
22 misconduct of the Individual Defendants, who were tasked by the Board to investigate their own  
23 self-dealing – adopted and made public these "findings," and failed to object to the patent  
24 conflict of interest inherent in the management's investigation of itself. Even assuming that any  
25 member of the Board lacked actual knowledge of the longstanding manipulation of grant dates,  
26 the Directors' response to the CFRA report demonstrates its unyielding bond with management  
27 and its willful abdication of its role, prescribed by the Company's own Corporate Governance  
28 Guidelines, to monitor the activities and performance of senior management and to serve the  
interests of the shareholders. *See* <http://www.zoran.com/Corporate-Governance>.

1           73. A short time later, however, on July 3, 2006, the Company announced that it had  
2 received an informal inquiry of the SEC and a grand jury subpoena from the U.S. Attorney for  
3 the Northern District of California “requesting documents from 1995 to the present referring to,  
4 relating to, or involving stock options.” Only then did the Company make a dramatic about-face  
5 from its position as stated in the May 23, 2006 press release. *See, e.g.*, Press Release, Zoran  
6 Corporation, Zoran Corporation Announces Creation of Special Committee To Continue Review  
7 of Stock Option Practices (July 3, 2006), available at [www.zoran.com](http://www.zoran.com).  
8

9           74. In the same July 3, 2006 press release, Zoran reported that, on the  
10 recommendation of its Audit Committee, the Board had created a special committee of  
11 independent members of the Board “to conduct a further review of the Company’s historical  
12 stock option practices,” and was conducting an internal review of the Company’s practices and  
13 all options granted since its initial public offering in 1995, including those referenced in the May  
14 23 press release. *Id.*  
15

16           75. On July 24, 2006, Zoran issued another press release disclosing only selected  
17 financial results for Second Quarter 2006, stating that its full report on financial results for the  
18 second quarter of 2006 would be delayed until “the conclusion of a previously announced review  
19 of its historical stock option practices being conducted by a special committee of its Board of  
20 Directors.” *See, e.g.*, Press Release, Zoran Corporation, Zoran Corporation Reports Selected  
21 Results For Its Second Quarter 2006 (July 24, 2006), available at [www.zoran.com](http://www.zoran.com). As explained  
22 in detail below, Plaintiff’s statistical analysis indicates that most, if not all, of the Directors were  
23 likely recipients of suspiciously timed options, or face other liability that renders them incapable  
24 of making an independent analysis of the misconduct and making the Board’s conclusions  
25 inherently suspect.  
26  
27

1           76.     Zoran issued only selected financial results for its Third Quarter 2006 as well, and  
2 announced that it would “release complete financial results upon completion of a review of its  
3 historical stock option practices.” *See, e.g.*, Press Release, Zoran Corporation Reports Selected  
4 Results For Its Third Quarter 2006 (October 24, 2006), available at [www.zoran.com](http://www.zoran.com).  
5

6           77.     As a result of these delays, the Company received at least two NASDAQ Staff  
7 Determination Letters, the most recent one on November 15, 2006, stating that it is subject to  
8 delisting for failure to timely file its 10-Q for both the second and third quarters of 2006,  
9 although it will remain listed pending a decision of the Listing Qualifications Panel on its  
10 hearing request and/or submission of its filing. *See, e.g.*, Press Release, Zoran Corporation,  
11 Zoran Corporation Receives NASDAQ Notice Regarding Delayed Filing of Form 10-Q  
12 (November 20, 2006), available at [www.zoran.com](http://www.zoran.com).  
13

14           78.     On February 20, 2007, the Company issued a press release announcing that it had  
15 completed its investigation. *See, e.g.*, Press Release, Zoran Corporation, Zoran Corporation  
16 Announces Completion of Stock Option Review And Expected restatement of historical  
17 Financial Statements (February 20, 2007), available at [www.zoran.com](http://www.zoran.com). The next day, on  
18 February 21, 2007, the Company filed a Form 8-K regarding the investigation and incorporating  
19 the press release issued the previous day. Importantly, in both the press release and the 8-K, the  
20 Board ***acknowledged*** that certain option grants had been backdated, as Plaintiff alleges herein,  
21 stating:  
22

23                   Zoran has determined that the appropriate measurement dates for  
24 financial accounting purposes of certain stock option grants differ  
25 from the recorded grant dates of those awards. Zoran has also  
26 determined that the dates of a small number of stock option grants  
27 to non-executives were established retrospectively....[A]dditional  
charges for stock-based compensation expense will be required,  
and that those charges will be material with respect to certain prior

1 fiscal periods. Zoran expects the aggregate amount of the  
2 additional non-cash compensation and other charges to be in the  
3 range of \$12 million - \$15 million, recognized in various amounts  
over the years 1997 through 2005.

4 The Company will restate previously issued historical financial  
5 statements to correct its past accounting for certain stock option  
6 grants. It will record additional stock-based compensation expense  
7 and related tax impacts, and will also evaluate any other  
8 unrecorded adjustments previously determined to be immaterial.  
Accordingly, the financial statements and related notes, financial  
9 press releases and similar communications issued by the Company,  
relating to fiscal periods beginning on or after January 1, 1997  
should no longer be relied on.

10 Current Report, Form 8-K (filed February 21, 2007).

11 79. However, despite the evidence of backdating revealed in its own investigation,  
12 which violated the clear terms of the shareholder-approved stock option plans described below,  
13 the Board again, unreasonably chose not to take action against the Individual Defendants, not to  
14 recoup the losses suffered by the Company as a result of Individual Defendants' actions, and not  
15 to cancel the outstanding backdated options. Instead, the Board simply stated that it "has  
16 concluded that there was no intentional misconduct by Zoran's current senior management." *Id.*

17 80. The Company's February 21, 2007 Form 8-K omitted to disclose the fact that, on  
18 December 22, 2006, Defendants Gerzberg and Schneider filed Form 4s that confirm their receipt  
19 of backdated stock as alleged herein. Gerzberg's filing discloses that a portion of the August 9,  
20 2002 grant issued to him was canceled and replaced with a grant of the same number of shares at  
21 an exercise price matching the fair market value of the stock at closing on August 22, 2002,  
22 *almost two weeks after the initial purported grant date.*

23 81. Schneider's December 22, 2006 Form 4 discloses the same transaction for a  
24 portion of the shares he received on August 9, 2002. Notably, although the Company appears to  
25  
26  
27

1 have determined that August 22, 2002 is the actual grant date for those backdated stock options,  
2 the Company only required Schneider and Gerzberg to re-price a fraction of the backdated  
3 options they received. The Company re-priced only 178,125 of the 427,500 backdated options  
4 Gerzberg received and re-priced only 31,250 of the 75,000 backdated options Schneider  
5 received. Defendant Shenberg, who also received 82,500 options purportedly granted on  
6 August 9, 2002, did not participate in the re-pricing. Thus, although the Company has  
7 recognized the executives' receipt of a massive backdated option grant, it has corrected only a  
8 small portion of the 585,000 backdated options that the Officer Defendants received.  
9

10 82. Schneider's Form 4 also discloses the re-pricing of a stock option grant that he  
11 received on September 19, 2001.<sup>4</sup> According to the Form 4, the Company has re-set the exercise  
12 price for those options to \$15.47, the closing price of the Company's stock on September 26,  
13 2001 and almost four dollars per share higher than the backdated amount. Thus, it appears that,  
14 after the Company's stock dipped to below \$12, presumably in the aftermath of the September  
15 11 terrorist attacks, the Officer Defendants took advantage of the price drop by granting  
16 themselves over 100,000 backdated options. See Charles Forelle, James Bandler and Mark  
17 Maremont, *Executive Pay: The 9/11 Factor*, The Wall Street Journal, July 15, 2006. Schneider's  
18 Form 4 indicates his return and the Company's re-pricing of only 8,437 of the 45,000 backdated  
19 options he received. Despite the Company's determination that a portion of Schneider's  
20 September 2001 backdated options must be re-priced, the Company took no action to correct the  
21  
22  
23

---

24  
25 <sup>4</sup> The September 19, 2001 grant was one of the three grants highlighted in the CFRA report as  
26 suspicious for backdating and cleared by the Audit Committee and Zoran management in the  
27 May 2006 investigation.



1 dates of 75,000 backdated options received by Gerzberg or the 55,000 backdated options  
2 received by Shenberg.

3 **C. Zoran's Stock Option Plans**

4 83. From fiscal years 1997 through 2005, Zoran maintained several stock option  
5 plans. The 1993 Stock Option Plan (the "Plan" or the "1993 Plan") was created "to attract and  
6 retain the best available personnel for positions of substantial responsibility, to provide  
7 additional incentives to Employees, Non-Employee Directors and Consultants of the Company  
8 and its Subsidiaries, and to promote the success of the Company's business." 1993 Plan, § 1.<sup>5</sup>

9  
10 84. The 1993 Plan permitted grants of stock options, up to a specified maximum, at  
11 the discretion of the administrator, each fiscal year to the employees, Directors and consultants  
12 of Zoran and/or its subsidiaries.

13  
14 85. Zoran's stock option plans, including the 1993 Plan, were to be administered by  
15 the Zoran Board of Directors or a committee designated for that purpose. During the relevant  
16 time period, the Zoran stock option plans, including the 1993 Plan, were administered by the  
17 Compensation Committee of the Zoran Board of Directors.

18 86. The Plan gave broad powers to the Compensation Committee. The Plan provided  
19 that the option price was to be determined by the Compensation Committee, but could not be less  
20

---

21 <sup>5</sup> Unless otherwise specified, references are to the Zoran Corporation 1993 Stock Option Plan (as  
22 amended through May 11, 1998), attached as an exhibit to the Company's 1998 Proxy  
23 Statement, Form DEF-14A (filed April 30, 1999). Plaintiff believes that, except where  
24 indicated, the relevant provisions of the 1993 Plan remained the same until it was replaced by  
25 the 2005 Equity Incentive Plan (the "2005 Plan"). During the relevant time period, the  
26 Company also maintained the 2000 Nonstatutory Stock Option Plan (the "2000 Nonstatutory  
Plan"), to provide additional options for employees and certain executives, and the 1995  
Outside Directors Stock Option Plan (the "1995 Directors Plan"), which provided for formula-  
based grants of options to non-employee directors.

1 than “the fair market value of such Shares on the date the Option is granted” in the case of  
2 Incentive Stock Options, or 85% of fair market value for Nonstatutory Stock Options. 1993 Plan,  
3 § 8(a). The Plan stated that Fair Market Value was also to be determined by the Committee, but  
4 “if there is a public market for the Common Stock, the fair market value per Share shall be the  
5 average of the last reported bid and asked price of the Common Stock on the date of the grant.”  
6

7 *Id.*

8 87. The Plan further mandated that “[u]nless otherwise specified by the Committee,  
9 the date of grant of an Option under the Plan shall be the date on which the Committee makes the  
10 determination granting such Option. Notice of the determination shall be given to each Optionee  
11 to whom an Option is so granted within a reasonable time after the date of such grant.” 1993  
12 Plan, § 12.  
13

14 88. Thus, by establishing a stock option grant date that preceded the date upon which  
15 the stock option was actually granted, without so specifying, the Company violated the terms of  
16 the Plan.

17 89. Indeed, as of June 2000, the Plan was amended to include a provision specifying  
18 that “[n]o Option shall be repriced without the approval of a majority of the shares of Common  
19 Stock present or represented by proxy and voting at a meeting of the stockholders of the  
20 Company at which a quorum representing a majority of all outstanding shares of Common Stock  
21 is present or represented by proxy.” 1993 Plan (as amended through June 18, 2000), § 5(e),  
22 attached to the Proxy Statement, Form DEF-14A for fiscal year 1999 (filed June 26, 2000) (the  
23 “1999 Proxy Statement”).  
24

25 90. The 1993 Plan and 2000 Nonstatutory Plan were eliminated and replaced by the  
26 2005 Plan. This new Plan increased the equity incentive options to include stock appreciation  
27

1 rights, restricted stock, restricted stock unit awards, performance share and performance unit  
2 awards, deferred compensation awards and other stock-based or cash-based awards, noting in  
3 particular the recent FASB changes governing the accounting treatment of share-based  
4 payments. In the proxy materials recommending that shareholders approve the 2005 Plan,  
5 Zoran's Board of Directors acknowledged that it was  
6

7 well aware of the criticism that has been leveled generally against  
8 the misuse of stock-based compensation by some companies. The  
9 Board believes that the 2005 Plan takes steps to address possible  
10 concerns of our stockholders. Under the 2005 Plan: Stock options  
11 and stock appreciation rights may not be repriced without the  
approval of our stockholders; No discount from fair market value  
is permitted in setting the exercise price of stock options and stock  
appreciation rights;....

12 Proxy Statement, Form DEF-14A for fiscal year 2005 (filed May 1, 2006) (the "2005 Proxy  
13 Statement").

14 91. The Company also maintained a stock option plan for its non-employee Directors.  
15 The 1995 Directors Plan provided for formula-based grants of options to non-employee  
16 Directors. Under the Directors Plan, each non-employee Director of the Company was  
17 automatically granted a nonstatutory option to purchase a certain number of shares on the date on  
18 which such person first became a non-employee Director of the Company and thereafter on the  
19 date immediately following each annual stockholders' meeting, if on such date the non-employee  
20 Director had served on the Board for at least six months. The 1995 Directors Plan provided that  
21 each initial option became exercisable in installments of one-fourth of the total number of shares  
22 on first, second, third, and fourth anniversaries of the grant, and each annual option became  
23 exercisable in full one year after the date of the grant, subject to the Director's continuous  
24  
25  
26  
27

1 service. The exercise price per share of all options granted under the Directors Plan was to equal  
2 the fair market value of the share on the date of the grant.

3 92. The 1995 Directors Plan was eliminated and replaced by the 2005 Directors Plan.  
4 According to the Company's 2005 Proxy Statement, the Board requested that the shareholders  
5 authorize the 2005 Directors Plan in order "to attract and retain highly qualified individuals to  
6 serve as independent Directors of Zoran and to provide an incentive toward increasing the value  
7 of Zoran for its stockholders."  
8

9 93. Unlike the 1995 Directors Plan, the 2005 Directors Plan was *not* a formula-based  
10 plan. Instead, it was akin to the 1993 Plan and the 2005 Equity Incentive Plan in that it gave the  
11 Board of Directors and the Compensation Committee discretion with regard to the date and  
12 amount of any options grant.  
13

14 94. The 2005 Directors Plan made clear, however, that "[t]he exercise price for each  
15 Option shall be the Fair Market Value of a share of Stock on the effective date of the grant of the  
16 Option."  
17

17 **D. The Zoran Compensation Committee**

18 95. From at least the beginning of the backdating period, the Compensation  
19 Committee of the Zoran Board of Directors was responsible for the administration and granting  
20 of stock options.  
21

22 96. From the beginning of the backdating period to the present, Defendants Galil and  
23 Stabenow have served on the Compensation Committee. Defendant Owens was on the  
24 Compensation Committee from 2003 through April 2004, at which point he was replaced by  
25 Defendant Meindl.  
26  
27

1           97.     The Compensation Committee was to consist of not less than two members of the  
2 Board and was responsible for discharging the Board's responsibilities relating to the  
3 compensation of Zoran's executive officers, including reviewing the performance of Zoran's  
4 executive officers, and approving salaries and incentive compensation for such officers.  
5 Specifically, subject to the terms of the 1993 Plan, the Compensation Committee:  
6

7                 determines the persons to whom options are to be granted, the number of  
8 shares to be covered by each option, whether an option is to be an  
9 incentive stock option or a nonstatutory stock option, the timing and terms  
10 of exercisability and vesting of each option, the exercise price and the type  
11 of consideration to be paid to the Company for shares acquired pursuant to  
12 an option, the time of expiration of each option, and all other terms and  
13 conditions of options granted under the Option Plan.

14 Proxy Statement, Form DEF-14A for fiscal year 1998 (filed April 30, 1999) (the "1998 Proxy  
15 Statement").

16           98.     The 1993 Plan defined the Compensation Committee's role and responsibility  
17 with respect to the Plan as follows:

18                 (c)     POWERS OF THE COMMITTEE. Subject to the provisions of  
19 the Plan, the Committee shall have the authority: (i) to determine, upon  
20 review of relevant information, the fair market value of the Common  
21 Stock; (ii) to determine the exercise price of Options to be granted, the  
22 Employees, Directors or Consultants to whom and the time or times at  
23 which Options shall be granted, and the number of Shares to be  
24 represented by each Option; (iii) to interpret the Plan; (iv) to prescribe,  
25 amend and rescind rules and regulations relating to the Plan; (v) to  
26 determine the terms and provisions of each Option granted under the Plan  
27 (which need not be identical) and, with the consent of the holder thereof,  
28 to modify or amend any Option; (vi) to authorize any person to execute on  
behalf of the Company any instrument required to effectuate the grant of  
an Option previously granted by the Committee; (vii) to accelerate or  
(with the consent of the Optionee) defer an exercise date of any Option,  
subject to the provisions of Section 9(a) of the Plan; (viii) to determine  
whether Options granted under the Plan will be Incentive Stock Options or  
Nonstatutory Stock Options; (ix) to make all other determinations deemed  
necessary or advisable for the administration of the Plan; and (x) to

1 designate which options granted under the Plan will be issued in reliance  
2 on Rule 701.

3 (d) EFFECT OF COMMITTEE'S DECISION. All decisions,  
4 determinations and interpretations of the Committee shall be final and  
5 binding on all potential or actual Optionees, any other holder of an Option  
6 or other equity security of the Company and all other persons.

1993 Plan, §§ 4(c)-(d).

7 99. Pursuant to this Plan, the Compensation Committee was responsible for awarding  
8 the stock options that are the subject of this litigation, in the amounts set forth below.

9 100. The Compensation Committee was given certain administrative authority under  
10 the 2005 Equity Incentive Plan. The 2005 Plan assigned to the Compensation Committee the  
11 following duties, among others:

12 **3.5 Powers of the Committee.** In addition to any other powers set forth  
13 in the Plan and subject to the provisions of the Plan, the Committee shall  
14 have the full and final power and authority, in its discretion:

15 (a) to determine the persons to whom, and the time or times at which,  
16 Awards shall be granted and the number of shares of Stock, units or  
monetary value to each Award;

17 (b) to determine the type of Award granted;

18 (c) to determine the Fair Market Value of shares of Stock or other  
19 property;

20 (d) to determine the terms, conditions and restrictions applicable to  
21 each Award (which need not be identical) and any shares acquired  
22 pursuant thereto, including, without limitation, (i) the exercise or purchase  
23 price of shares pursuant to any Award, ... (viii) all other terms, conditions  
and restrictions applicable to any Award or shares acquired pursuant  
thereto not inconsistent with the terms of the Plan;

24 (2005 Equity Incentive Plan, attached to 2005 Proxy Statement as Appendix A)

1           101. Likewise, the 2005 Directors Plan gives the Board and the Compensation  
2 Committee the authority to set the amount of any grant issued to the Outside Directors. (2005  
3 Directors Plan, § 6, attached to 2005 Proxy Statement as Appendix B).

4           102. With respect to the backdated stock option awards, the Compensation Committee  
5 was certainly aware or should have known that the purported grant dates did not correspond to  
6 the dates on which the Compensation Committee actually granted the stock options.  
7 Nevertheless, the Compensation Committee granted stock options to the Officer Defendants  
8 using exercise prices that reflected a price at which the stock had closed days or even weeks  
9 earlier than the actual grant date.  
10

11 **E. The Zoran Audit Committee**

12           103. During the relevant period, Defendants Galil, Meindl, and Stabenow served on the  
13 Audit Committee, which was to be comprised of at least three Directors who satisfied the  
14 independence and experience requirements of the Company and applicable NASDAQ rules.  
15

16           104. The Board's Audit Committee was responsible for monitoring the Company's  
17 financial reporting, including compensation reporting. Indeed, the stated purpose of the Audit  
18 Committee is as follows:

19           The primary function of the Committee is to assist the Board of Directors  
20 in fulfilling its financial oversight responsibilities by reviewing and  
21 reporting to the Board upon (i) the financial reports and other financial  
22 information provided by the Company to any governmental body or to the  
23 public, (ii) the Company's systems of internal and external controls  
24 regarding finance, accounting, legal compliance and ethics that  
25 management and the Board have established and (iii) the Company's  
26 auditing, accounting and financial reporting processes in general.  
27 Consistent with this function, the Committee should encourage continuous  
28 improvement of, and should foster adherence to, the Company's financial  
policies, procedures and practices at all levels. The Committee's primary  
duties and responsibilities are to:

1 - Serve as an independent and objective party to monitor the Company's  
2 financial reporting process and internal control systems.

3 - Review and appraise the audit efforts and independence of the  
4 Company's auditors.

5 - Provide an open avenue of communication among the independent  
6 auditors, financial and senior management, and the Board.

7 Zoran Corporation Charter of the Audit Committee of the Board of Directors ("2001 Audit  
8 Committee Charter"), § I, attached as Appendix A to Proxy Statement, Form DEF-14A for fiscal  
9 year 2000 (filed April 30, 2001) (the "2000 Proxy Statement"); *see also* subsequent Audit  
10 Committee Charters, attached as Appendix A to Proxy Statement, Form DEF-14A for fiscal year  
11 2001 (filed April 30, 2002) (the "2001 Proxy Statement"), and as Annex G to Zoran's 2002  
12 Proxy Statement, which contain nearly identical provisions.

13 105. The Audit Committee Charter provides the Audit Committee with broad authority  
14 and responsibility for the Company's financial reporting, including the following:

15 A. Oversight of the Company's Independent Auditor

16 The Committee shall be directly and solely responsible for the engagement  
17 of any independent auditor employed by the Company for the purpose of  
18 preparing or issuing an audit report or related work and shall be directly  
19 involved in the oversight of such engagement. Each independent auditor  
shall report directly to the Committee. The Committee shall:

20 \* \* \*

21 10. Review with the independent auditor the critical accounting  
22 policies and practices used by the Company, all alternative treatments of  
23 financial information within generally accepted accounting principles  
24 ("GAAP") that the independent auditor has discussed with management,  
the ramifications of the use of such alternative disclosures and treatments  
and the treatment preferred by the independent auditor.

25 B. Review of Financial Reporting, Policies and Processes



1 To fulfill its responsibilities and duties the Committee shall, to the extent  
2 that it deems necessary or appropriate, and in addition to the items  
3 described above:

4 1. Review and discuss with management and the independent auditor  
5 the Company's annual audited financial statements, any certification,  
6 report, opinion or review rendered by the independent auditor, and  
7 recommend to the Board whether the audited financial statements should  
8 be included in the Company's annual report on Form 10-K.

9 2. Review and discuss with management and the independent auditor  
10 the Company's disclosure under "Management's Discussion and Analysis  
11 of Financial Condition and Results of Operations" in connection with the  
12 Company's annual report on Form 10-K.

13 3. Review and discuss with management and the independent auditor  
14 the Company's quarterly financial statements and the Company's  
15 disclosure under "Management's Discussion and Analysis of Results of  
16 Operation".

17 4. Review and discuss press releases regarding the Company's  
18 financial results and other information provided to securities analysts and  
19 rating agencies, including any "pro forma" or adjusted financial  
20 information.

21 \* \* \*

22 6. Review with management and the independent auditor any  
23 significant judgments made in management's preparation of the financial  
24 statements and the view of each as to appropriateness of such judgments.

25 7. Review annually with management its assessment of the  
26 effectiveness of the Company's internal control structure and procedures  
27 for financial reporting ("Internal Controls"), and review annually with the  
independent auditor the attestation to and report on, the assessment made  
by management, and consider whether any changes to the Internal  
Controls are appropriate in light of management's assessment or the  
independent auditor's report.

8. Review quarterly with management its evaluation of the  
Company's procedures and controls ("Disclosure Controls") designed to  
assure that information required to be disclosed in its periodic public  
reports is recorded, processed, summarized and reported in such reports  
within the time periods specified by the Securities and Exchange  
Commission for the filing of such reports, and consider whether any

1 changes are appropriate in light of management's evaluation of the  
2 effectiveness of such Disclosure Controls.

3 \* \* \*

4 12. Review analyses prepared by management and/or the independent  
5 or internal auditor setting forth significant financial reporting issues and  
6 judgments made in connection with the preparation of the financial  
7 statements including the effects of alternative GAAP methods on the  
8 financial statements.

9 C. Risk Management, Related Party Transactions, Legal Compliance  
10 and Ethics

11 To further fulfill its responsibilities and duties, the Committee shall, to the  
12 extent that it deems necessary or appropriate, and in addition to the items  
13 described above:

14 1. Review with the Chief Executive Officer and Chief Financial  
15 Officer of the Company any report on significant deficiencies in the  
16 design or operation of the Internal Controls which could adversely affect  
17 the Company's ability to record, process, summarize or report financial  
18 data, any material weaknesses in Internal Controls identified to the  
19 auditors, and any fraud, whether or not material, that involves  
20 management or other employees who have a significant role in the  
21 Company's Internal Controls.

22 2. Consider and approve related-party transactions, after reviewing  
23 each such transaction for potential conflicts of interests and other  
24 improprieties.

25 \* \* \*

26 4. Adopt a Code of Ethics for senior financial officers and provide for  
27 and review prompt disclosure to the public of any change in, or waiver of,  
28 such Code of Ethics. Review conduct alleged to be in violation of such  
Code of Ethics and adopt as necessary or appropriate, remedial,  
disciplinary, or other measures with respect to such conduct. Take such  
actions, including review of conduct alleged to be in violation of the  
Company's Code of Business Conduct and Ethics, and adoption of  
remedial, disciplinary, or other measures with regard to such actions, as  
may be necessary or appropriate under the Code of Business Conduct and  
Ethics.

5. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies that raise material issues regarding the Company's financial statements or accounting policies.

\* \* \*

7. Discuss guidelines and policies to govern the process by which risk assessment and management is undertaken and handled. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

8. Prepare the Committee's report required by the rules of the Securities Exchange Commission to be included in the Company's annual proxy statement.

Audit Committee Charter, § IV, attached as Appendix A to Zoran's 2005 Proxy Statement, (the "2006 Audit Committee Charter"); *See also* 2001, 2002, and 2003 Audit Committee Charters, which contain virtually identical provisions.

#### **F. Stock Option Grants to the Individual Defendants**

106. From 1997 to 2005, the Compensation Committee granted Zoran stock options to the Officer Defendants, as follows:

<b>Defendant</b>	<b>Purported Date of Grant</b>	<b>Exercise Price<sup>6</sup></b>	<b>Number of Options</b>	<b>Subsequent 10-Day Increase &gt; 5%</b>
Aharon, Aharon	1/2/1997	\$17.50	60,000	31.43%
	1/26/98	\$13.38	30,000	27.15%
	8/4/1998	\$5.94	20,000	36.70%
	8/4/1998	\$5.94	90,000	36.70%
	8/4/1999	\$20.38	30,000	49.36%
	7/28/2000	\$41.00	50,000	11.12%
	2/7/2001	\$15.50	35,000	

<sup>6</sup> The exercise price for each grant represents the actual closing price on the purported date of grant and is not adjusted for splits or dividends.

<b>Defendant</b>	<b>Purported Date of Grant</b>	<b>Exercise Price<sup>6</sup></b>	<b>Number of Options</b>	<b>Subsequent 10-Day Increase &gt; 5%</b>
Gerzberg, Levy	7/23/1997	\$19.75	75,000	
	8/4/1998	\$5.94	40,000	36.70%
	8/4/1998	\$5.94	191,666	36.70%
	8/4/1999	\$20.38	55,000	49.36%
	7/28/2000	\$41.00	90,000	11.12%
	2/7/2001	\$15.50	50,000	
	9/19/2001	\$17.28	75,000	32.41%
	8/9/2002	\$12.36	427,500	15.53%
	7/15/2003	\$24.78	304,679	5.33%
	7/15/2003	\$24.78	304,679	5.33%
	8/19/2005	\$13.59	180,000	14.28%
Goldberg, Paul	7/23/1997	\$19.75	10,000	
	8/4/1998	\$5.94	15,000	36.70%
	8/4/1998	\$5.94	40,000	36.70%
	8/4/1999	\$20.38	15,000	49.36%
Martino, Camillo	8/21/2001	\$32.00	150,000	
	10/31/2001	\$25.29	50,000	26.06%
	8/21/2002	\$14.93	75,000	
	10/17/2002	\$13.60	75,000	10.22%
	7/15/2003	\$24.78	130,000	5.33%
	7/15/2003	\$24.78	130,000	5.33%
Schneider, Karl	1/26/1998	\$13.38	10,000	27.15%
	8/4/1999	\$20.38	15,000	49.36%
	7/28/2000	\$41.00	30,000	11.12%
	2/7/2001	\$15.50	25,000	
	9/19/2001	\$17.28	45,000	32.41%
	8/9/2002	\$12.36	75,000	15.53%
	7/15/2003	\$24.78	100,000	5.33%
	7/15/2003	\$24.78	100,000	5.33%
	8/19/2005	\$13.59	60,000	14.28%
Shenberg, Isaac	7/23/1997	\$19.75	40,000	
	8/4/1998	\$5.94	15,000	36.70%
	8/4/1998	\$5.94	40,000	36.70%
	8/4/1999	\$20.38	20,000	49.36%
	7/28/2000	\$41.00	40,000	11.12%
	2/7/2001	\$15.50	30,000	
	9/19/2001	\$17.28	55,000	32.41%
	8/9/2002	\$12.36	82,500	15.53%
	7/15/2003	\$24.78	100,000	5.33%
	7/15/2003	\$24.78	100,000	5.33%

Defendant	Purported Date of Grant	Exercise Price <sup>6</sup>	Number of Options	Subsequent 10-Day Increase > 5%
	8/19/2005	\$13.59	54,000	14.28%
Sinar, Alex	7/23/1997	\$19.75	30,000	
	8/4/1998	\$5.94	10,000	36.70%
	8/4/1998	\$5.94	30,000	36.70%

107. As noted above, the 1993 Plan, the 2005 Plan, and the 2005 Directors Plan all required that, absent specific approval by the Administrator, or a merger or acquisition, the exercise price for any stock option issued under the Plan must be at least 100% of the Fair Market Value on the date of the grant.

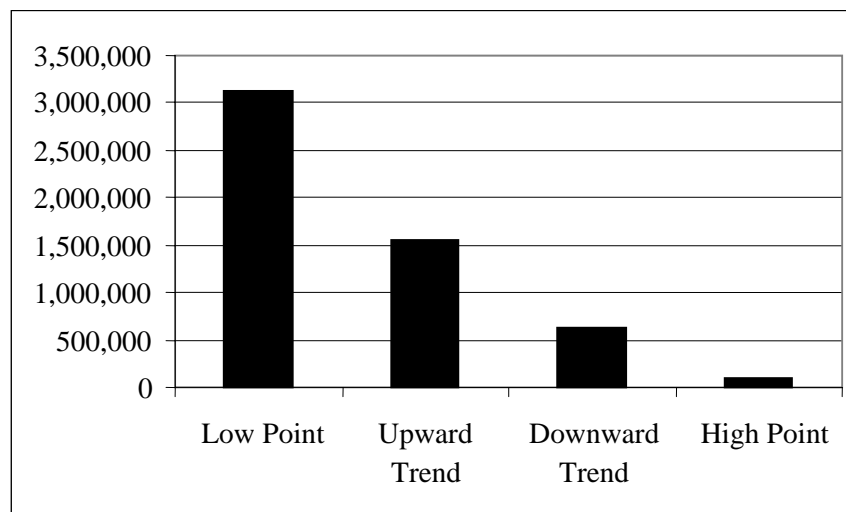
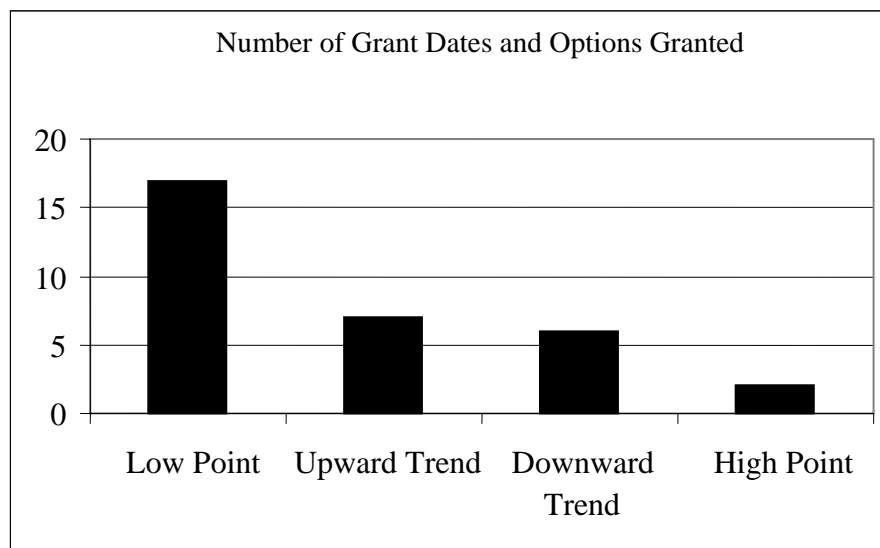
108. As recognized by Professor Lie, “in the absence of opportunistic grant timing or opportunistic timing of information flows around grants, the returns before and after grant dates should be similar. Consequently, if opportunistic timing is absent, the distribution of the difference between the returns for a given number of days after the grants and the returns for the same number of days should be centered roughly at zero.” Randall A. Heron and Erik Lie, *What Fraction of Stock Option Grants to Top Executives Have Been Backdated or Manipulated* (July 14, 2006); online at <http://www.issproxy.com/pdf/OptionsBackdatingStudy071406.pdf>.

109. With respect to Zoran, the stock option grant dates follow a striking pattern that could not have been the result of chance. The table above shows that each of the Individual Defendants received a substantial number of option shares that increased in value immediately after they were granted, by significant amounts.

110. Indeed, nearly half of the foregoing stock option grants were dated just after a sharp drop and just before a substantial rise in Zoran’s stock price (low point) and seventy-five

percent were granted on dates when the option values increased immediately after they were granted (low point and upward trend), as the following charts demonstrate:

<b>Relative Stock Price</b>	<b># of Dates</b>	<b>Total # Options</b>
Low Point	17	3,121,495
Upward Trend	7	1,550,722
Downward Trend	6	623,800
High Point	2	95,000
<b>Totals:</b>	<b>32</b>	<b>5,391,017</b>



111. As described above, CFRA, in its independent study, identified three suspicious sets of grants, in August 1998, August 1999, and September 2001, which it concluded were at risk for backdating. In fact, however, between 1997 and 2005, a substantial majority of the Company's stock option grants were awarded at or near the lows for the period in which they were granted, with the stock price consistently increasing significantly shortly thereafter.

112. Statistical analysis of all of Zoran's option grants from 1996 through 2005 reveals that the timing of Zoran's suspicious option grants could not have been the result of mere chance. Between 1996 and 2005, the Company granted options on thirty-two different dates. The probability of these thirty-two grants occurring when they did, on or near the low point for the month nearly one-third of the time, without manipulation in the grant process, was approximately one in 1,235 (a probability of 0.08094%).<sup>7</sup>

113. The chart below matches the option grant dates with historical prices for Zoran's common stock. Each option grant date was then ranked against the other days for the calendar month in which the grant occurred, with a "1" rank corresponding to the date with the lowest share price within the month-long period, a "2" rank being the date with second-lowest share price in the month, and so forth. These findings are set out in the table below:

<b><u>Option Rankings Within Calendar Months</u></b>	
<b><u>Grant Date</u></b>	<b><u>Rank in Month</u></b>
1/31/1996	22
6/7/1996	14
7/24/1996	3
1/2/1997	<b>1</b>

<sup>7</sup> The statistical analysis discussed herein was performed by an expert retained by Plaintiff. In addition to the expert analysis, Plaintiff relies upon his own investigation and analysis and disclosures and admissions issued by the Company and Board of Directors.

**Option Rankings**  
**Within Calendar Months**

<u>Grant Date</u>	<u>Rank in Month</u>
5/6/1997	2
7/23/1997	12
1/26/1998	6
6/11/1998	7
8/4/1998	2
1/20/1999	13
8/4/1999	1
10/11/1999	1
1/26/2000	4
7/28/2000	1
2/7/2001	9
3/16/2001	1
6/29/2001	21
8/21/2001	1
9/19/2001	2
10/31/2001	11
6/21/2002	11
8/9/2002	4
8/21/2002	19
10/17/2002	16
4/29/2003	19
7/15/2003	17
7/17/2003	14
8/11/2003	6
6/21/2004	1
4/26/2005	3
8/19/2005	4
11/23/2005	16

114. As the above table indicates, of the thirty-two option grant dates, seven were ranked as a “1” for the month in which the grant was made, meaning that they were granted on the date with the lowest share price in the period. Ten of the option grants were ranked “1” or “2,” meaning that they fell on one of the two dates with the lowest share prices in the period.

115. After identifying the monthly rank of each of the option grants, the probability of the number of grant dates ranking “1” or “2” was calculated using a binomial distribution



1 probability function, where the number of occurrences was the number of grant dates ranking  
2 “1” (or “1” and “2”), the number of observations was the total number of grant dates, and the  
3 probability was calculated by assuming twenty trading days per month. (The binomial  
4 distribution probability function is used in problems, such as this one, with a fixed number of  
5 tests or trials, when the outcomes of any trial produce only one of two results, when the trials are  
6 independent, and when the probability producing one of the two results is constant throughout  
7 the problem. For example, the function can calculate the probability that two out of three coin  
8 tosses will turn up heads or how many out of 100 people will contract a certain disease.)

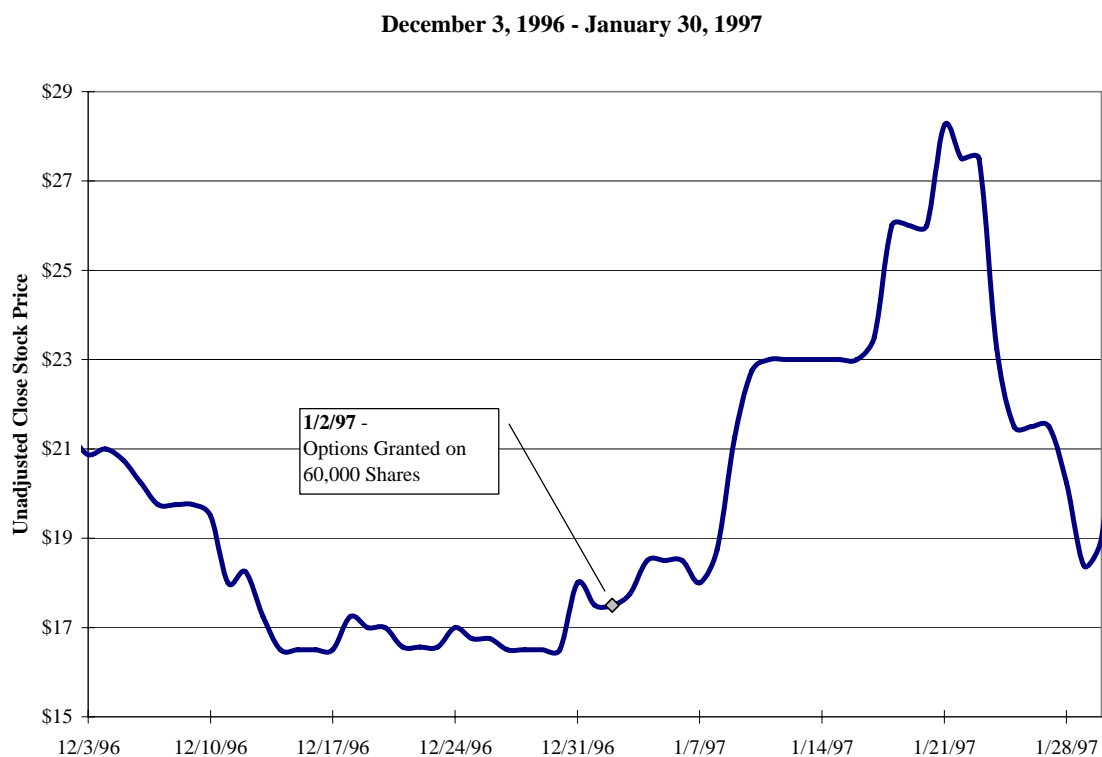
10 116. The probability of a one in 1,235 occurrence (or a 0.08094% likelihood), as noted  
11 above, is the probability of ten or more of the thirty-two grants being ranked 1 or 2 in their  
12 respective month-long periods. The odds are one in 1,151 (or a 0.08685%) that the grants would  
13 be ranked “1” in their respective month-long periods.

15 117. With regard to the options granted prior to the enactment of the Sarbanes Oxley  
16 Act, when the Company was not required to file Form 4s for each option grant by the end of the  
17 second business day following the option grant date, the odds are one in 1,327 (or a 0.07535%  
18 likelihood) that six or more of the twenty-three grants in this period would be ranked “1” in their  
19 respective calendar months, and a one in 4,539 chance (or a 0.02203% likelihood) that nine or  
20 more of the twenty-three grants would be ranked “1” or “2” in their respective month-long  
21 periods. These statistically significant results indicate manipulation of the option grants, and are  
22 supported by the Company’s February 21, 2007 Form 8-K filing, wherein the Company admitted  
23 that it must restate its financial statements dating back to 1997 “to correct its past accounting for  
24 . . . stock option grants.”  
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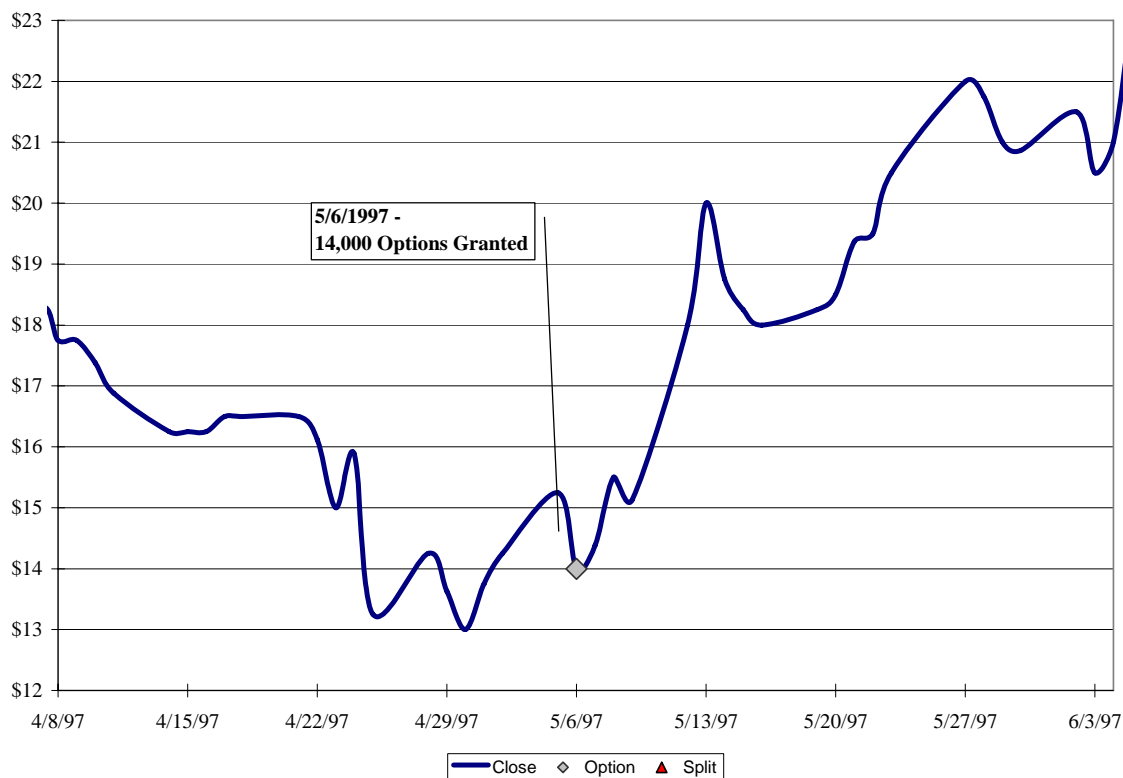
1           118. The improbability of these grant dates being mere coincidence is also statistically  
2 significant when looking at a subset of Zoran grants between 1997 and 2001, the period focused  
3 on by CFRA, and the period during which many public companies, including Zoran, have  
4 admitted to backdating. During that period, six of seventeen grants were ranked “1” in their  
5 respective calendar months. The probability of such an outcome is one in 8,353 (or a 0.01197%  
6 likelihood) and a one in 87,226 (or 0.00115% likelihood) chance that nine of the seventeen  
7 grants would rank either “1” or “2” for the period. These results are statistically significant and  
8 indicate intentional manipulation of the option grants. For these reasons, Plaintiff alleges that  
9 most, if not all, of these grants were backdated.  
10

11           119. What follows are charts documenting specific examples of the extraordinary  
12 pattern of Zoran’s stock grants issued between fiscal year 1997 and 2005. On information and  
13 belief, Plaintiff alleges that all of these stock option grants were backdated.  
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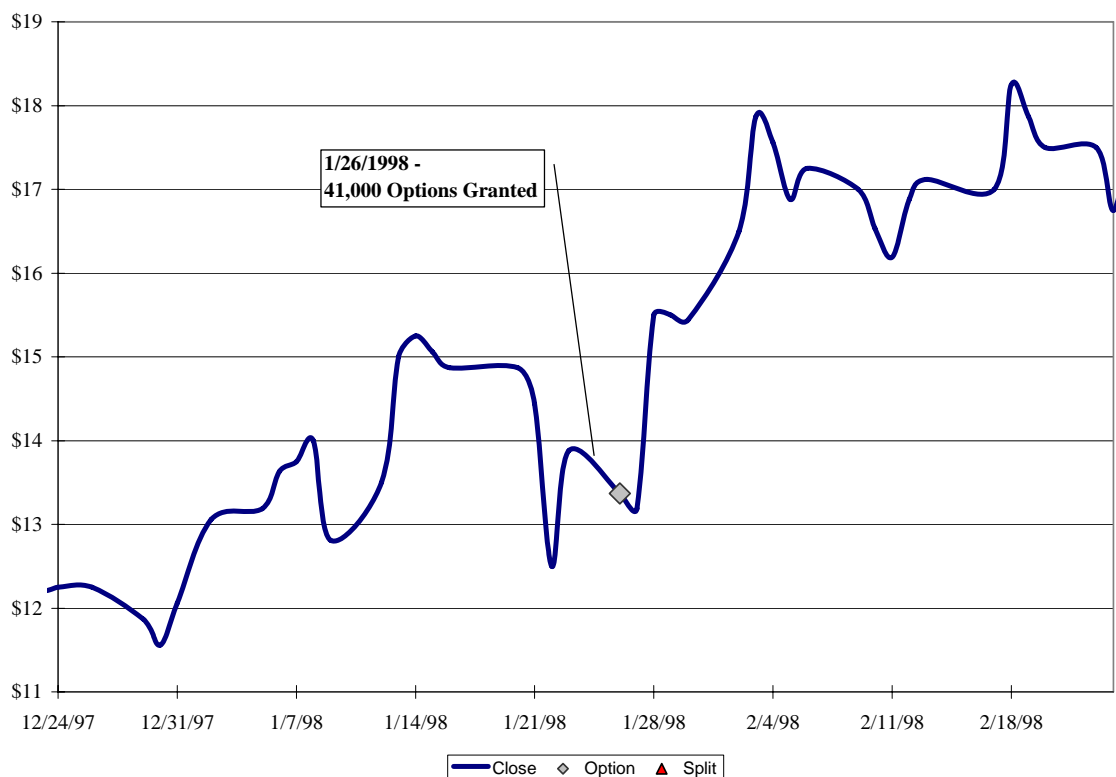
120. The first chart represents the Compensation Committee's grant of 60,000 shares to Defendant Aharon on January 2, 1997. This grant ranked as a "1" for that month. In the two trading weeks following this grant, the value of Zoran stock increased \$10 per share, from \$17.50 on January 2, 1997, to \$27.50 on January 22, 1997, making the timing of the grant a likely suspect for having been backdated.



121. Likewise, as illustrated in the below chart, the Compensation Committee purportedly made a suspicious grant to Zoran's Director of Marketing for the JPEG product line, Shmuel Farkash, on May 6, 1997. This grant was made in a trough with the price of the Company's stock increasing \$6 per share, from \$14 to \$20, by May 13, 1997, five trading days later.

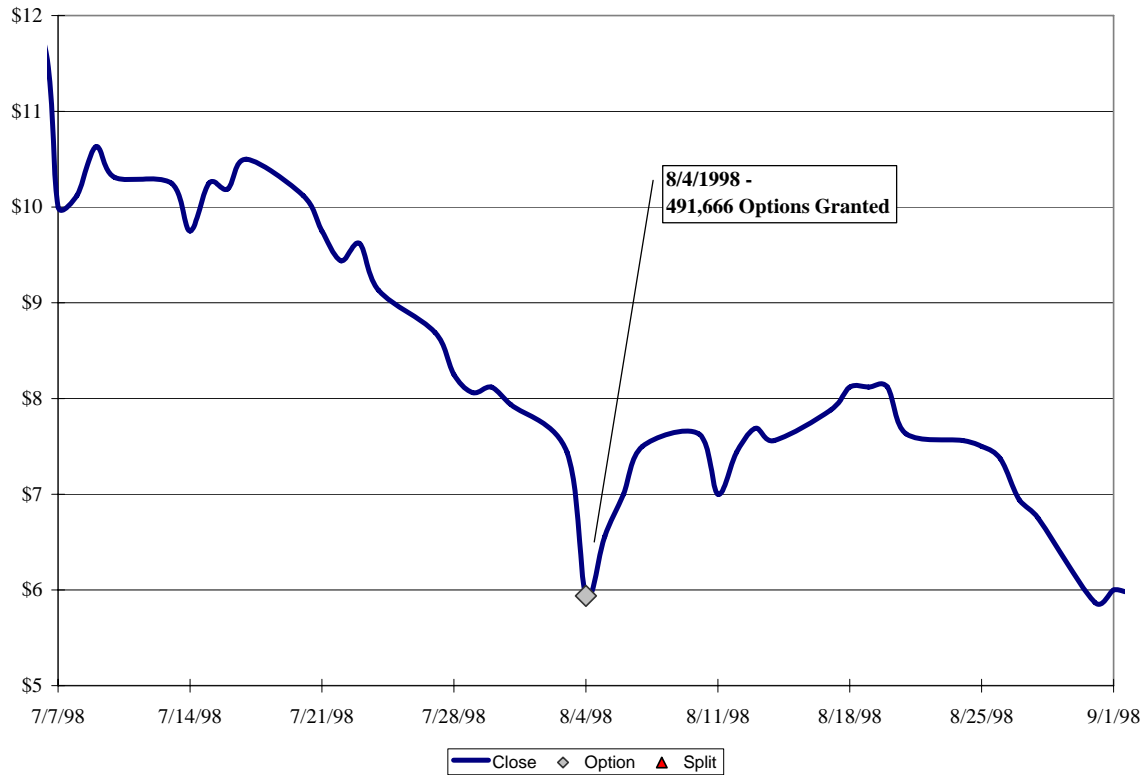


122. The purported January 26, 1998 grant illustrated below is similarly suspicious. The recipients of this grant were Defendant Schneider and Mr. Farkash. The price of Zoran's stock rose sharply, from \$13.37 on the purported date of the grant, to \$17.87 on February 3, 1998, eight days later.

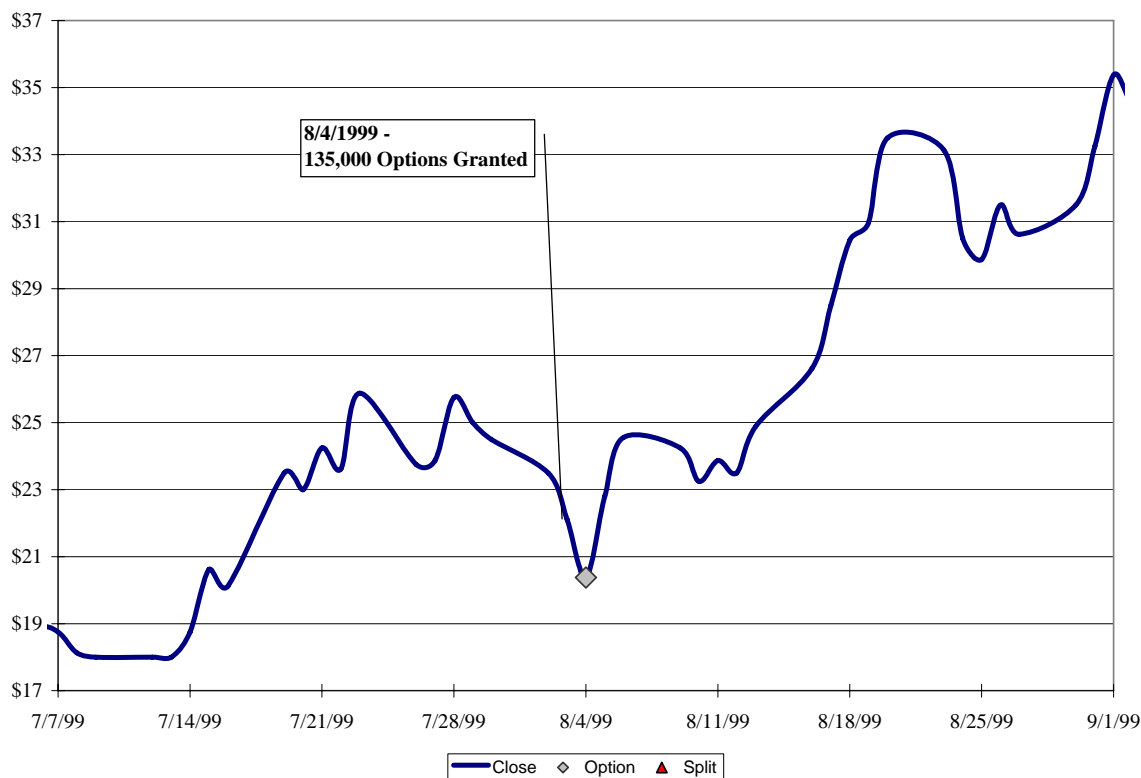


1           123. The chart below illustrates the timing the grant of options to purchase more than  
2 491,000 Zoran shares to Defendants Aharon, Gerzberg, Goldberg, Shenberg, and Sinar on  
3 August 4, 1998, which Plaintiff's statistical analysis ranked as a "2" for its period. In the ten  
4 trading days following this grant, the Company's shares increased in value an astounding  
5 36.70%. This grant was one identified by the CFRA as being at "risk for backdating."

6  
7           124. Notably, on August 4, 1998, Zoran's stock had dropped significantly, from a  
8 \$7.63 high, to close at \$5.94 per share. This price was significantly lower than the July 24, 1998  
9 high of \$9.13, and two dollars below the \$7.94 closing price just two trading days before, on  
10 July 31, 1998. A portion of these August 4, 1998 grants were made pursuant to a re-pricing plan  
11 formulated by the Compensation Committee Defendants and other Individual Defendants to take  
12 advantage in the sharp decline in the price of Zoran stock. The offer had the effect of swapping  
13 options that would have been less profitable to those holding them, for options that were more  
14 advantageous. In short, the Individual Defendants ensured that Zoran's officers and employees  
15 benefited, at a cost to the Company, not only when the backdating stock practices worked to their  
16 advantage, but also when they didn't.

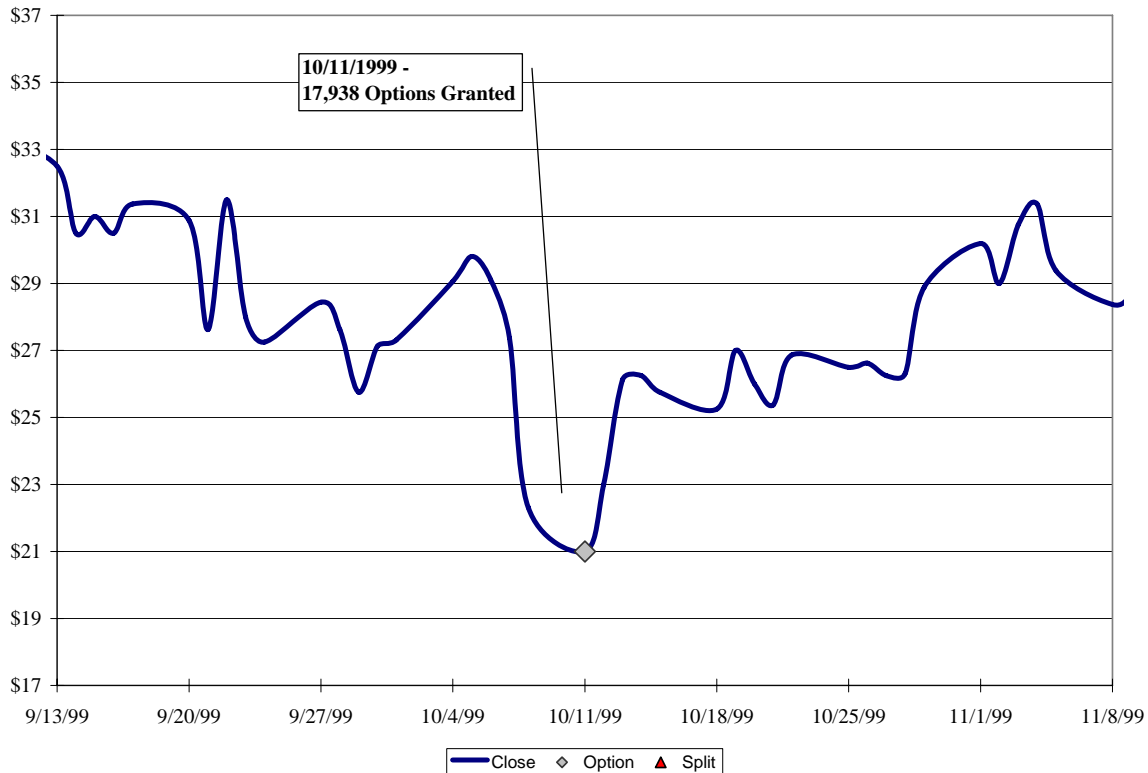


125. The next chart identifies another grant date called into question by the CFRA report. The Company awarded Defendants Aharon, Gerzberg, Goldberg, Schneider, and Shenberg options for 135,000 shares, purportedly on August 4, 1999. The Company's stock increased in value by more than 50% over the following two weeks, from \$20.38 per share on August 4, 1999 to \$33.50 per share on August 20, 1999.

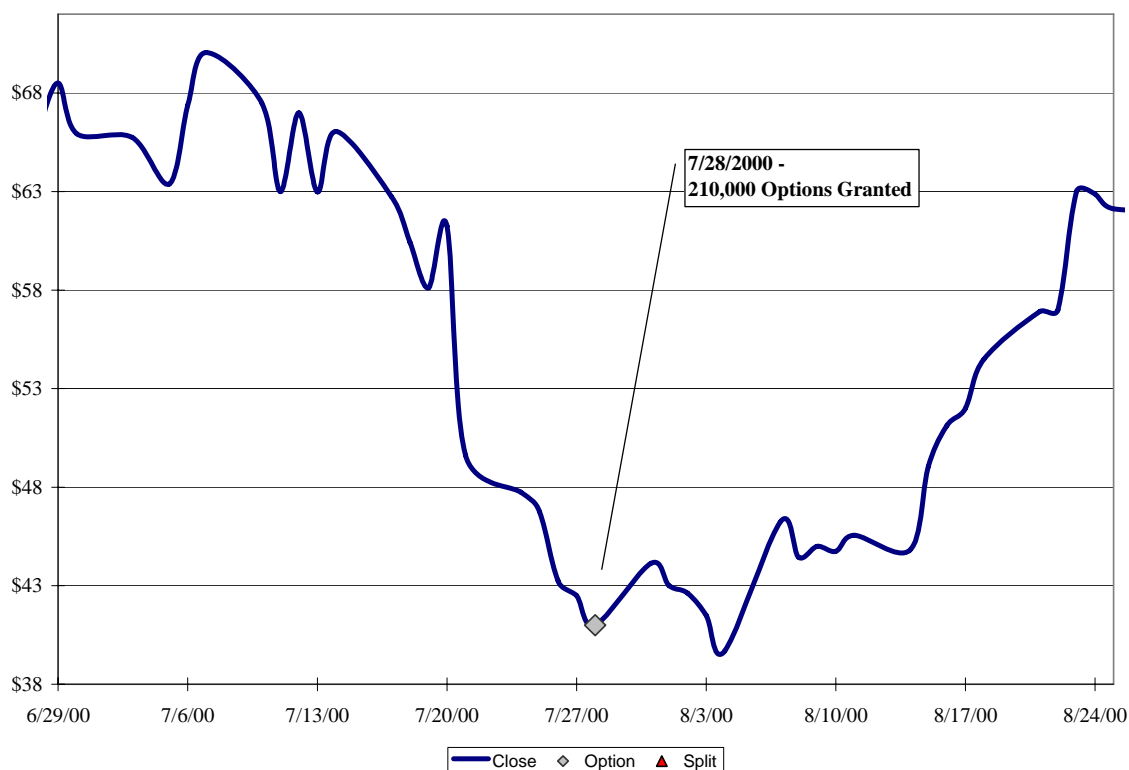




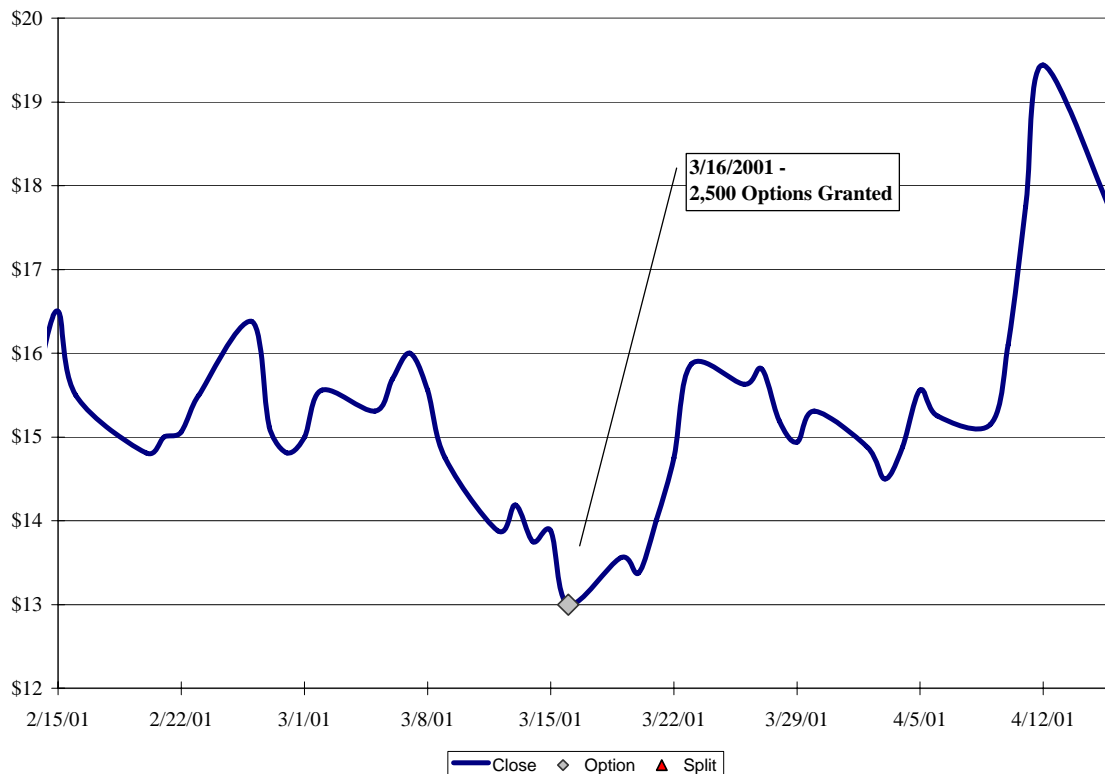
126. The Company purportedly authorized a grant of 17,938 shares to Zoran's Vice-President of Worldwide Sales, Bruce Renouard, on October 11, 1999. The timing of this grant is also suspicious. This grant not only corresponded to the lowest trading price within the month of October but also the lowest closing price of any day in the first three calendar months of Mr. Renouard's employment at Zoran. Furthermore, in the three trading days preceding the grant date, the value of the Company's shares had plummeted more than \$8 per share, to \$21 per share on October 11, 1999. In the three days immediately after the grant, Zoran's stock rebounded, increasing by more than \$5 per share, to \$26.25 per share on October 14, 1999.



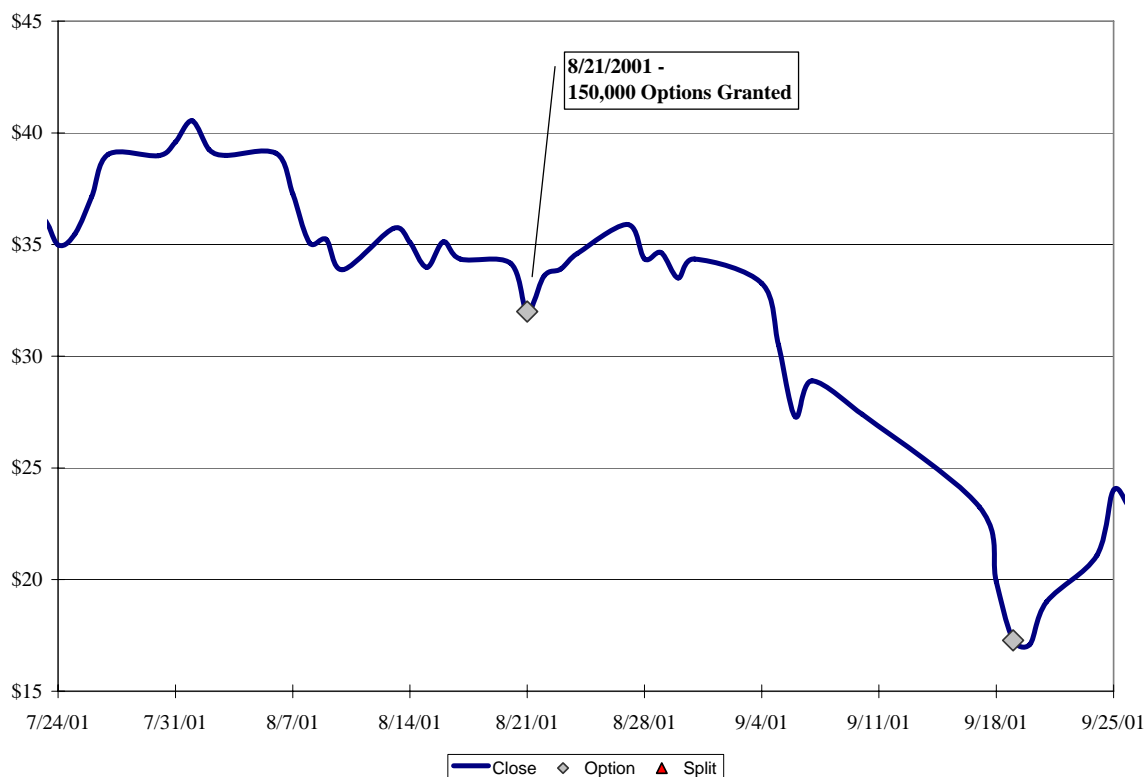
127. The Compensation Committee again purported to issue the Officer Defendants option grants on the lowest ranked date for a calendar month, on July 28, 2000. The Compensation Committee caused the Company to issue the Officer Defendants options for 210,000 Zoran shares, purportedly on July 28, 2000, the value of which increased by \$11 per share in the two trading weeks thereafter, from \$41 per share on July 28, 2000, to \$52 per share on August 17, 2000.



128. The Compensation Committee awarded Defendant Stabenow 2,500 options, purportedly on March 16, 2001. This date corresponded with Zoran stock's lowest value for the month. Furthermore, this grant is suspect in that Stabenow was the only Director to receive this grant and it was seemingly not made pursuant to the 1995 Directors Plan. Zoran stock rose nearly three dollars per share in the days immediately following this grant, from \$13 per share on March 16, 2001, to \$15.87 per share on March 23, 2001.



129. The following chart illustrates a grant purportedly awarded by the Compensation Committee on August 21, 2001, which consisted of options for 150,000 Zoran shares. These stock options were awarded to Defendant Martino. That date was the lowest ranked date in the calendar month. As one can see from the chart, the timing of this grant is suspicious because of the severity of the trough in which it was granted. Within four days, Zoran's stock price increased by \$3.90, to \$35.90 per share on August 27, 2001.



1           130. The grant illustrated below purportedly occurred on September 19, 2001. On that  
2 date, the Compensation Committee purportedly granted Defendants Gerzberg, Schneider, and  
3 Shenberg a total of 117,000 options. This grant occurred in the aftermath of 9/11, when the  
4 Company's stock had been seriously depressed. As the Wall Street Journal reported in an article  
5 dated March 7, 2007, many post-9/11 options were backdated by a number of companies in order  
6 to take advantage of the market's plunge to its lowest point in 60 years:  
7

8                   Harvey Pitt, who was chairman of the SEC at the time of the  
9 attacks, said it was "offensive" for companies to capitalize on the market  
10 panic caused by 9/11. The terror attacks "created many pressures,  
11 difficulties and dislocations," said Mr. Pitt. "The one thing it cannot be  
12 used to justify is the fraudulent backdating of documents."

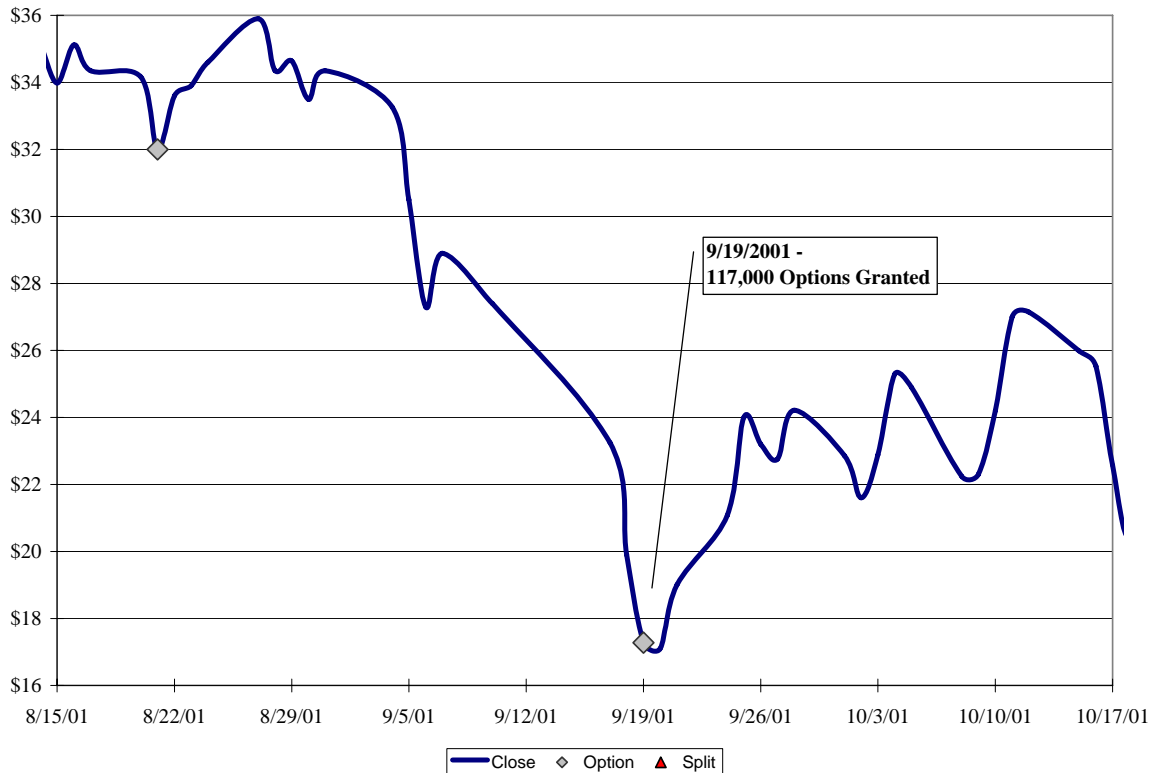
13                   In the wake of the attacks, the nation's stock markets were closed  
14 from Sept. 11 to Sept. 14. When they reopened the following week, the  
15 Dow Jones Industrial Average skidded more than 14%, in the worst full  
16 week for the blue-chip average since Germany invaded France in May  
17 1940.

18                   Scores of companies rushed to grant options during the market's  
19 trough; a Wall Street Journal analysis published in July found that among  
20 a set of 1,800 leading companies the frequency of option grants more than  
21 doubled in late September 2001, compared with other years.

22           Mark Maremont, Charles Forelle, and James Bandler, *Companies Say Backdating Used in Days*  
23 *After 9/11*, The Wall Street Journal, March 7, 2007. The market rebounded sharply in the fourth  
24 quarter of 2001, after these grants were made.

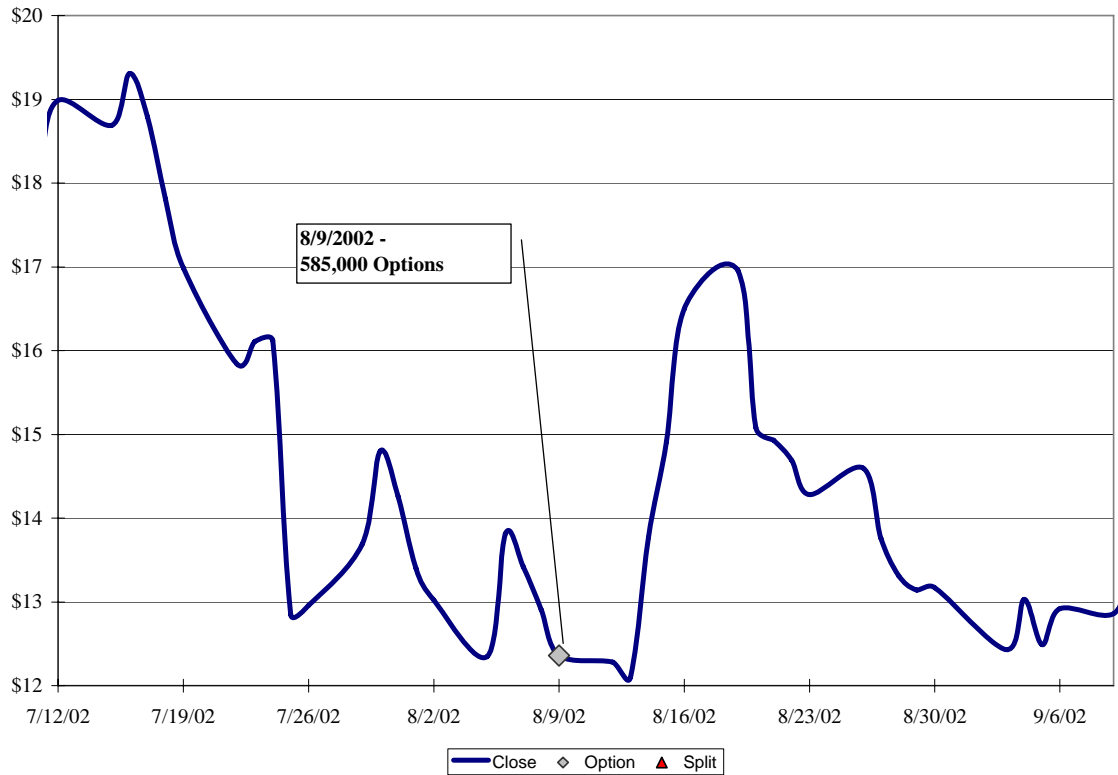
25           131. The Defendants have implicitly admitted that this grant was backdated. On  
26 December 22, 2006, more than five years after this purported grant date, Defendant Schneider  
27 filed a Form 4 disclosing the re-pricing of his options from this grant from the share price from  
28 \$11.52 on September 19, 2001 to the share price of the Company's stock on September 26, 2001,  
*seven days later*, when the price of the Company's stock was \$15.47 per share. (Schneider's

Form 4 reflects the closing prices after adjustments for splits and dividends. The actual (unadjusted) closing prices of the stock were \$17.28 on September 19, 2001 and \$23.20 on September 26, 2001, when the grants were actually made). This is the same grant brought to the Company's attention in May 2006 by the CFRA report, which management concluded "had been properly made at a regularly scheduled meeting of the Board of Directors or its Compensation Committee and that none of these grants had involved any 'backdating.'" *See, e.g.*, Press Release, Zoran Corporation, Zoran Corporation Responds to Report Regarding Option Grants (May 23, 2006), available at [www.zoran.com](http://www.zoran.com).



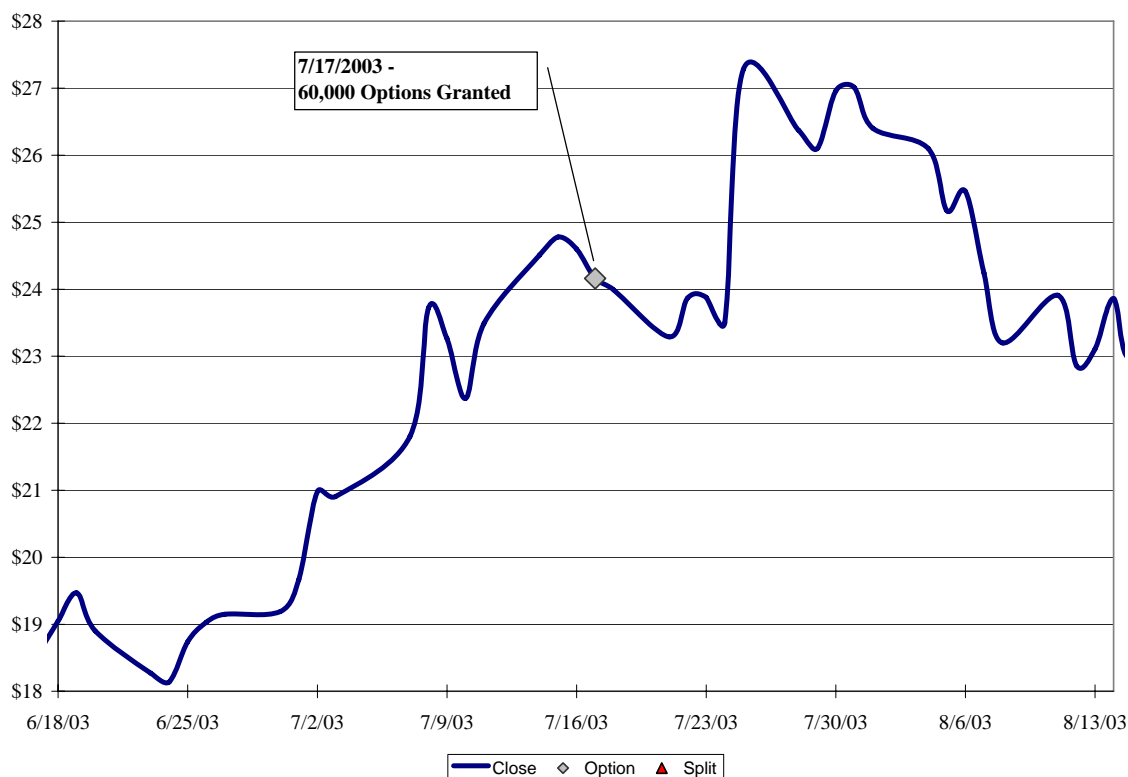
1           132. The Compensation Committee's grant of 585,000 options to Defendants  
2 Gerzberg, Schneider, and Shenberg purportedly occurred on August 9, 2002, immediately after a  
3 dramatic drop in the price of Zoran stock. Just as in the examples above, the stock rebounded  
4 immediately after the grant, increasing dramatically in value over the ten days immediately  
5 following the grant date, from \$12.36 per share on August 9, 2002 to \$16.96 per share on August  
6 19, 2002, seven days later.  
7

8           133. In fact, on December 22, 2006, Defendants Gerzberg and Schneider, two of the  
9 recipients of the purported August 9, 2002 grant, filed Form 4s re-pricing these option grants to  
10 correspond to the price of Zoran's stock on August 22, 2002, when the stock was trading at a  
11 much higher price. These re-pricings indicate that the options purportedly granted on August 9,  
12 2002 were in fact backdated by nearly two weeks. While Schneider and Gerzberg filed Form 4s  
13 disclosing the re-pricing, they only re-priced a portion of the grants they were purportedly  
14 granted on August 9, 2002. Defendant Shenberg did not participate in the re-pricing.  
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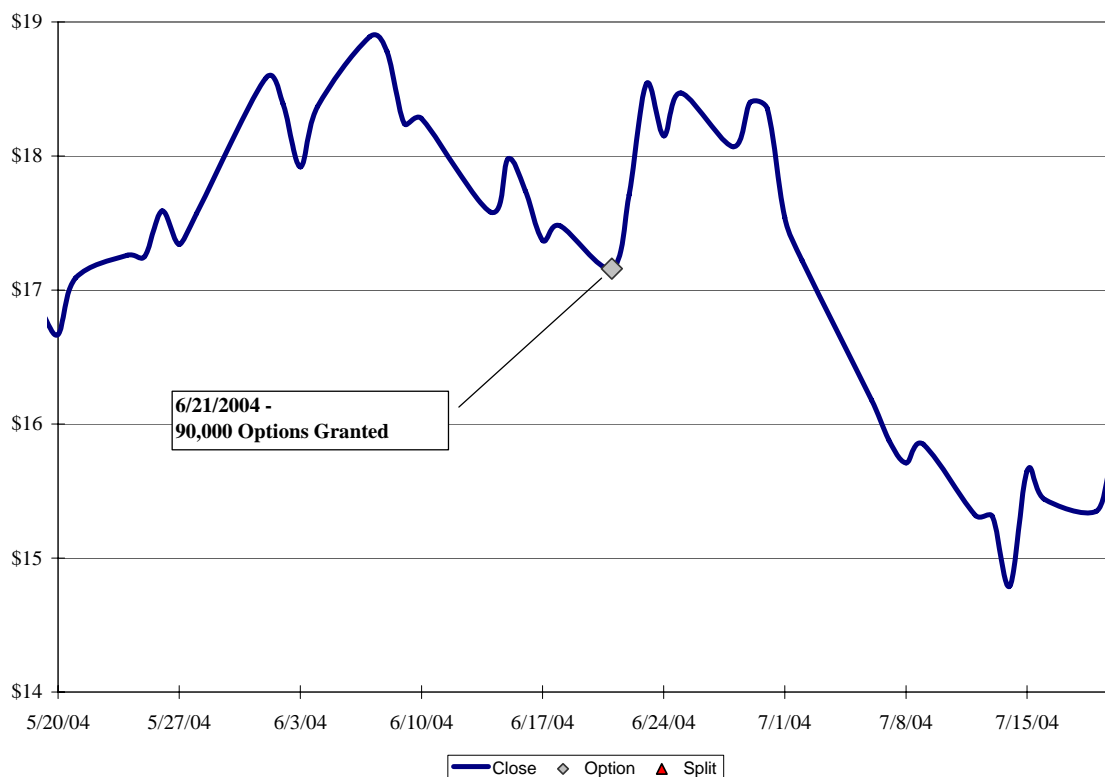




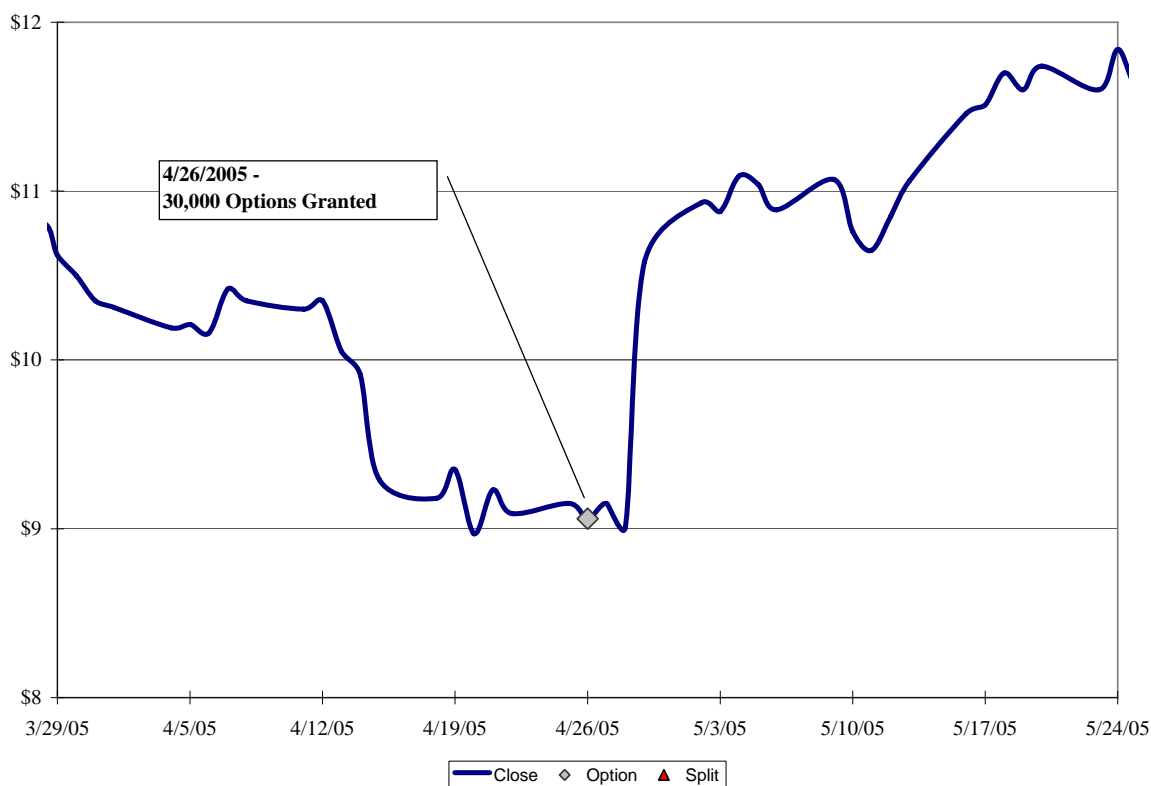
134. The purported July 17, 2003 grant of 60,000 options to Zoran's Board of Directors is also suspicious, given that the share price increased substantially immediately after the purported grant date, from \$24.16 on July 17, 2003 to \$27.28 on July 25, 2003. These option grants are also uniquely suspect because they were awarded to the Directors under the discretionary 1993 Plan, instead of the formula-based 1995 Directors Plan, which was in place at the time.



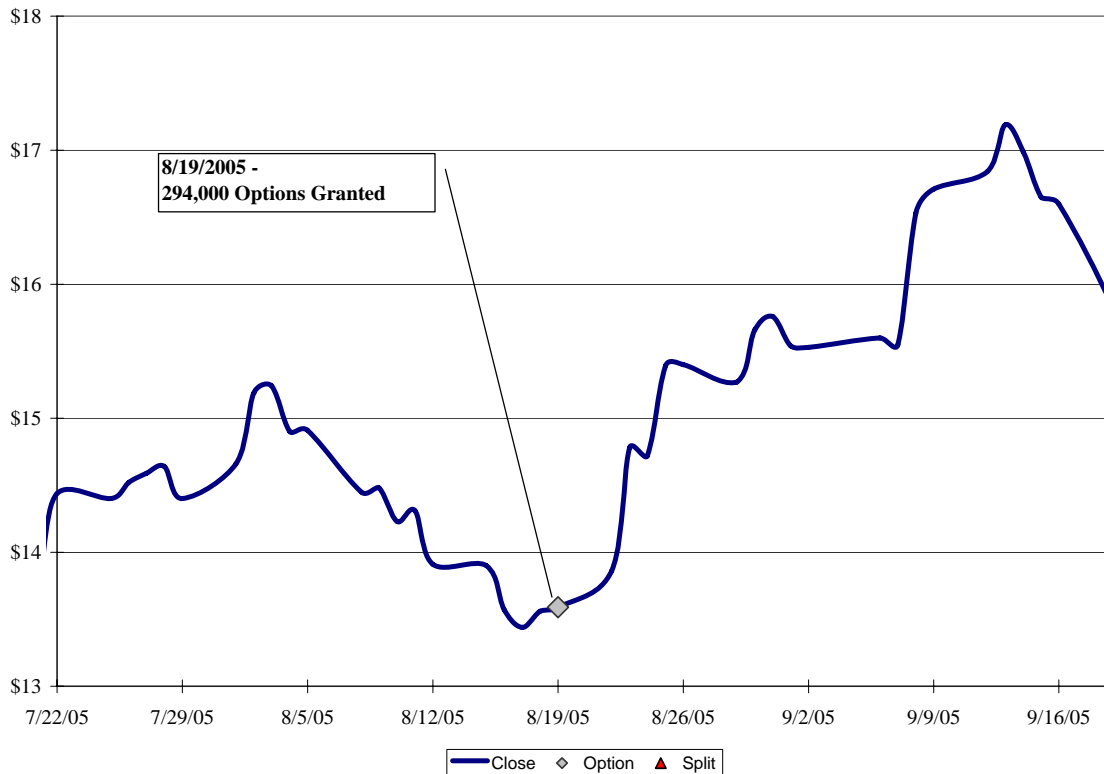
135. The Compensation Committee purportedly authorized the grant of 90,000 options for the benefit of the Board of Directors on June 21, 2004. On the date of these grants, the Company's stock was trading at its lowest point for the month of June 2004. Immediately after the grant, the price of Zoran's stock increased sharply, to \$18.40 per share on June 29, 2004.



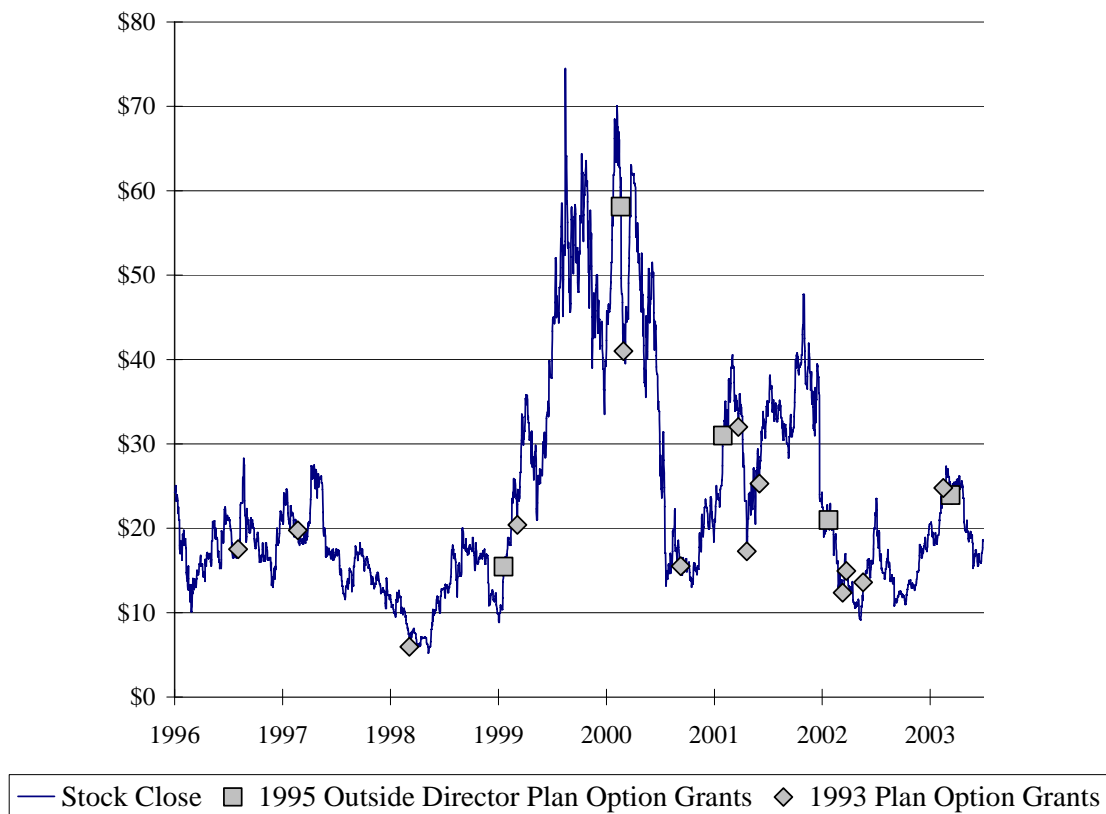
1           136. Likewise, the purported April 26, 2005 grant of 30,000 stock options by the  
 2 Compensation Committee Defendants to Defendant Burgess is suspicious, given the sharp  
 3 increase in the Zoran's stock's value immediately after the grant. The value of the stock  
 4 increased more than two dollars per share, to \$11.07 on May 9, 2005.  
 5



137. As illustrated below, the Compensation Committee awarded Defendants Gerzberg, Schneider, and Shenberg 294,000 stock options with a purported grant date of August 19, 2005. Once again, the timing of this grant appears to be more than mere coincidence. The grant was made in a trough, at nearly the lowest point for the month. From the date of the grant forward the value of Zoran's stock shot up dramatically, increasing by more than three dollars per share over the next two trading weeks, to \$17.19 per share on September 13, 2005.



138. The following chart, which compares the option grants made under the 1993 Plan, on discretionary dates, to the options grants under the 1995 Directors Plan, on pre-determined dates, for a subset of the period complained of, further demonstrates the extraordinary, non-coincidental pattern of Zoran's stock grants. As stated above, the 1995 Directors Plan provides for annual grants to non-employee Directors on the day following the date of the Company's annual meeting of shareholders. The chart reveals that the options granted on pre-set dates under the 1995 Directors Plan are not nearly as fortuitous in timing as the options granted on dates selected under the 1993 Plan.



139. As the research by Professor Lie and others demonstrates, while positive returns for a single grant might be innocently explained, a consistent pattern of frequent and well-timed grants makes backdating the most plausible—if not the only plausible—explanation. *See, e.g.,*

1 Charles Forelle, *How the Journal analyzed Stock-Option Grants*, The Wall Street Journal, March  
2 18, 2006 (“It is very unlikely that several grants spread over a number of years would all fall on  
3 high-ranked days [i.e. most favorable to the recipient].”).

4 140. Thus, Plaintiff alleges that the reason for the pattern of frequent and well-timed  
5 grants of Zoran options set forth in the table above can only be that the options were backdated  
6 by the Individual Defendants, and not actually granted on the dates reported in the Company’s  
7 proxy statements. This allegation is confirmed by Zoran’s admissions that “the appropriate  
8 measurement dates for financial accounting purposes of certain stock option grants differ from  
9 the recorded grant dates of those awards,” that “the dates of a small number of stock option  
10 grants to non-executives were established retrospectively,” and that, as a result, the Company  
11 needs to restate approximately ten years of financial statements in order to correct materially  
12 underreported charges for the Company’s stock-based compensation expense. Zoran Form 8-K  
13 (filed Feb. 21, 2007)

14 141. This improper backdating, which violated the terms of the Company’s Stock  
15 Option Plans under which each of the grants were purportedly authorized, resulted in grants of  
16 “in the money” options to the Individual Defendants, which they failed to disclose or for which  
17 they failed to properly account.

18 142. According to the Zoran Proxy Statements issued during fiscal years 1997 through  
19 2005, which are discussed in more detail in Subsection F below, each of the options granted to  
20 the Individual Defendants was for a term of ten years. Thus, the overwhelming majority of the  
21 options granted to the Officer Defendants from 1997 through 2005 have yet to expire.  
22 Consequently, the Individual Defendants are in continued breach of their fiduciary obligations  
23 and the opportunity for further unjust enrichment of the Officer Defendants exists to this day.  
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1           143. At all times relevant hereto, through their fiduciary duties of care, good faith, and  
2 loyalty, the Individual Defendants owed to Zoran and its shareholders a duty to ensure that the  
3 Company's assets were not misappropriated or otherwise diverted. Consistent with their  
4 fiduciary duties, the Individual Defendants had a duty to ensure that the Company's financial  
5 reporting fairly presented, in all material respects, the operations and financial condition of the  
6 Company. As discussed below, the Individual Defendants knowingly caused the Company's  
7 persistent violations of GAAP and IRC provisions of both the Securities Act of 1933 and the  
8 Exchange Act.

10 **G. Backdating and Tax Consequences for the Company and Employees**

11           144. The backdating scheme perpetrated by the Individual Defendants subjected the  
12 Company to significant federal tax liability. By concealing their backdating practices for ten  
13 years, a number of the Individual Defendants identified above, not only received discounted  
14 stock options, but delayed or entirely avoided personal tax liabilities triggered by the exercise of  
15 those options.

17           145. As a consequence of the backdating scheme, the Individual Defendants also  
18 caused the Company not only to file materially misleading financial statements and proxy  
19 statements with the SEC, but also to mischaracterize its stock option grants over several years,  
20 potentially to include the Company's filing of false tax returns with the IRS, and create for the  
21 Company potential civil liability for option related taxes that will extend for the life of the  
22 backdated option grants.

24           146. In furtherance of the backdating scheme, the Individual Defendants caused the  
25 Company to violate numerous federal tax laws, exposing both the Company and its employees to  
26 undisclosed tax, interest and penalty liabilities under applicable IRC sections.

1           147. Specifically, the backdating scheme resulted in the Company's improper  
2 deduction of executive compensation under IRC § 162(m), 26 U.S.C. § 162(m). IRC § 162(m)  
3 generally limits the deductibility of executive compensation to \$1 million per year. Excepted  
4 from this amount is "performance based" compensation, including stock option compensation  
5 issued at an exercise price no less than fair market value on the date of the grant.  
6

7           148. To qualify as performance based compensation, a stock option grant must also be  
8 (1) approved by a compensation committee comprised solely of two or more outside Directors;  
9 and (2) issued pursuant to a plan approved by the Company's shareholders.

10           149. As alleged herein, the Individual Defendants caused Zoran to violate IRC  
11 § 162(m) by backdating option grants in order to fix their exercise prices at below market value  
12 on the actual grant date. The backdating scheme thus not only violated the express terms of the  
13 Company's Stock Option Plans but also rendered any and all backdated options ineligible for  
14 deduction from executive compensation amounts under IRC § 162(m).  
15

16           150. Consequently, all of the Individual Defendants' income resulting from the  
17 exercise of the options must have been included in the amount of executive compensation  
18 calculated for purposes of determining whether the Company exceeded the \$1 million cap on  
19 deductible executive compensation expenses. Moreover, as discussed below, backdated options  
20 also fail to qualify for treatment as Incentive Stock Options ("ISO"). Backdated options must be  
21 treated as non-statutory stock options ("NSO") and require the Company to withhold federal  
22 income and employment taxes on the executives' gains as measured between the grant date and  
23 the exercise date.  
24

25           151. With respect to Zoran's highest paid executives, the Individual Defendants'  
26 concealment of the backdating scheme facilitated their avoidance of federal taxes while causing  
27



1 the Company to file inaccurate federal tax returns with the IRS and to fail to withhold the  
2 amounts required by federal law.

3 **H. Disqualification of Incentive Stock Option Treatment & Resultant Liabilities**

4 152. As discussed above, ISO grants entitle recipients to preferential tax treatment in  
5 certain instances. ISOs generally are not taxable upon exercise if certain requirements are  
6 satisfied. However, in order to qualify as an ISO, an option must be granted at no less than fair  
7 market value on the grant date. This statutory requirement is reflected in the Company's various  
8 stock option plans, all of which require that an ISO exercise price be the stock's fair market  
9 value on the date of the grant.  
10

11 153. A backdated ISO that is granted "in-the-money" loses its favorable treatment and  
12 instead is considered an NSO and becomes subject to additional taxes, including ordinary income  
13 recognition by the recipient, on any gain at exercise, and triggers the Company's obligation to  
14 withhold employment and income taxes on the corresponding gain.  
15

16 154. The Individual Defendants' backdating scheme caused the Company to  
17 improperly treat NSOs as ISOs, resulting in the Company's failure to withhold appropriate  
18 income taxes and properly to report employees' deferred compensation in violation of IRC §§  
19 3041, 6041 and 6051.  
20

21 155. Additionally, the failed ISOs issued as a consequence of the Individual  
22 Defendants' backdating scheme have caused and will continue to cause the non-defendant  
23 recipients of the options substantial and previously undisclosed tax liabilities, for which the  
24 Company may be liable on a continuing basis.  
25  
26  
27

1 **I. Taxes Arising Under Section 409A Due to Exercise of Backdated Options**

2 156. Enacted in 2004, IRC § 409A, 26 U.S.C. § 409A, imposes additional taxes on  
3 certain deferred compensation arrangements, including stock options with exercise prices below  
4 the fair market value on the date of the grant. The considerable tax consequences triggered by §  
5 409A include immediate income inclusion upon exercise, an additional 20% income tax on the  
6 amount to be included, and certain additional interest charges.  
7

8 157. In response to the revelation of widespread backdating abuses, such as those  
9 perpetrated by the Individual Defendants at Zoran, the IRS has initiated a special compliance  
10 program in order to mitigate the tax liabilities of non-corporate insider employees who received  
11 backdated options that now subject them to additional taxes under § 409A. The Compliance  
12 Program does not diminish the tax liability, but instead allows the respective companies to pay in  
13 full the applicable § 409A taxes triggered by exercise of backdated options during 2006. *See*  
14 IRS, Announcement 2007-18, Compliance Resolution Program for Employees Other than  
15 Corporate Insiders for Additional 2006 Taxes Arising Under § 409A due to the Exercise of Stock  
16 Rights.  
17

18 158. Announcing this program, IRS Commissioner Mark W. Everson stated:

19 This shameful practice was widespread. We are allowing employers to  
20 satisfy the tax obligations of employees who did not knowingly participate  
21 in these schemes. This initiative does not extend to the executives and  
22 insiders who were the principal beneficiaries of the backdating schemes.  
23 We continue to pursue these cases and work closely with the Securities  
24 and Exchange Commission and the Justice Department as appropriate.

25 159. Companies had until February 28, 2007 to notify the IRS of their intent to  
26 participate in the compliance program. Regardless of whether Zoran participates in the program,  
27 the backdating alleged herein subjects the Company to substantial civil liability to non-corporate  
28

insider employees who received backdated options and may be subject to the significant tax liabilities caused by the Individual Defendants' misconduct.

**J. Individual Defendants' Backdating Scheme Resulted in the Company's Violation of GAAP and Rendered the Company's Financial Statements Materially Inaccurate and Unreliable**

160. The Exchange Act explicitly requires that financial statements filed with the commission be prepared in conformity with GAAP and that financial statements filed with the SEC that are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. As such, Zoran's financial statements, including disclosures, issued during the relevant period were false and misleading when filed because they constituted a distinct failure to apply the then-prevailing guidance for recording the cost of stock options issued. Specifically, as a consequence of the Individual Defendants' backdating scheme, the Company's financial statements since 1997 failed to recognize the compensation charge in the amount of the discount resulting from the Individual Defendants' manipulation of the grant date multiplied by the number of discounted backdated options granted, thus materially misstating compensation charges and tax consequences while materially overstating the Company's net income for each of those periods.

161. Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-11, require the Company to file accurate periodic and current financial reports containing all material information needed to make the report not misleading.

162. Zoran's quarterly financial statements filed on Forms 10-Q for the relevant period were materially misstated in violation of GAAP, as set forth in detail in Paragraphs 163-170, below. Regulation S-X further requires that interim financial statements also comply with GAAP with the exception that interim financial statements need not include disclosures that

1 would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §  
2 210.10-01(a).

3 163. The Company failed to adhere to at least the following general accounting  
4 principles:

- 5 • The principle that financial reporting should provide  
6 information that is useful to present and potential investors and  
7 creditors and other users in making rational investment, credit  
8 and similar decisions (FASB Statement of Concepts No. 1,  
9 ¶34);
- 10 • The principle that financial reporting should provide  
11 information about an enterprise's financial performance during  
12 a period. "Investors and creditors often use information about  
13 the past to help in assessing the prospects of an enterprise.  
14 Thus, although investment and credit decisions reflect  
15 investors' and creditors' expectations about future enterprise  
16 performance, those expectations are commonly based at least  
17 partly on evaluations of past enterprise performance." (FASB  
18 Statement of Concepts No. 1, ¶42);
- 19 • The principle that financial reporting should be reliable in that  
20 it represents what it purports to represent. That information  
21 should be reliable as well as relevant is a notion that is central  
22 to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

- The principle of completeness, which means that nothing material is left out of the information that may be necessary to ensure that it validly represents underlying events and conditions (FASB Statement of Concepts No. 2, ¶79); and,
- The principle that financial reporting should be verifiable in that it provides a significant degree of assurance that accounting measures represent what they purport to represent (FASB Statement of Concepts No. 2, ¶81).

164. As noted above, on February 21, 2007, Zoran filed a Form 8-K that stated that its financial statements relating to fiscal periods after 1997 should no longer be relied upon and that it would restate its financial statements for the years 1997 through 2005. The filing stated, in relevant part as follows:

The Company will restate previously issued historical financial statements to correct its past accounting for certain stock option grants. It will record additional stock-based compensation expense and related tax impacts, and will also evaluate any other unrecorded adjustments previously determined to be immaterial. Accordingly, the financial statements and related notes, financial press releases and similar communications issued by the Company, relating to fiscal periods beginning on or after January 1, 1997 should no longer be relied upon.

165. The announced restatement constitutes Zoran's admission that its previously filed financial statements were materially misstated when issued. Accounting Principles Board Opinion ("APB") No. 20: Accounting Changes, provides the guidance for when a Company is required to restate its previously issued financial statements. APB No. 20 states, in relevant part, as follows:

1 Restating financial statements of prior periods may dilute public  
2 confidence in financial statements and may confuse those who use them.  
3 Financial statements previously prepared on the basis of accounting  
4 principles generally accepted at the time the statements were issued should  
therefore be considered final except for changes in the reporting entity or  
corrections of errors. (§ 14, emphasis added)

5 166. Further, APB No. 20 defines an error in financial statements as follows:

6 Errors in financial statements result from mathematical mistakes, mistakes  
7 in the application of accounting principles, or oversight or misuse of facts  
8 that existed at the time the financial statements were prepared.

9 167. Still further, APB No. 20 specifically states that it applies to material corrections  
10 of errors as follows:

11 If a change or correction has a material effect on income before  
12 extraordinary items or on net income of the current period before the  
13 effect of the change, the treatments and disclosures described in this  
14 Opinion should be followed. Furthermore, if a change or correction has a  
material effect on the trend of earnings, the same treatments and  
disclosures are required. (§ 38, emphasis added)

15 168. As noted above, the February 20, 2007 press release explained the reason for the  
16 restatement as primarily relating to the backdating of stock options. Specifically, the Company  
17 announced the following:

18 Zoran has determined that the appropriate measurement dates for financial  
19 accounting purposes of certain stock option grants differ from the recorded  
20 grant dates of those awards. Zoran has also determined that the dates of a  
21 small number of stock option grants to non-executives were established  
22 retrospectively. Zoran has substantially completed its assessment of the  
23 accounting impacts of the change in measurement dates for certain stock  
24 option grants and based on that assessment, Zoran and the Audit  
25 Committee concluded, on February 15, 2007, after consultations with  
26 management and independent advisors, that additional charges for stock-  
based compensation expense will be required, and that those charges will  
be material with respect to certain prior fiscal periods. Zoran expects the  
aggregate amount of the additional non-cash compensation and other  
charges to be in the range of \$12 million - \$15 million, recognized in  
various amounts over the years 1997 through 2005.

1           169. Zoran's original accounting treatment of "in the money" stock options grants  
2 reflected in its financial statements violated GAAP, primarily through the failure to record stock-  
3 based compensation expense relating to the grants, resulting in material overstatements of  
4 operating and net income. GAAP, Accounting Principles Board Opinion No. 25, "Accounting  
5 for Stock Issued to Employees" ("APB 25"), which was effective for all periods starting after  
6 December 31, 1972 prior to the adoption of FAS 123(R), specifically explains how and when a  
7 company is to measure and record stock-based compensation. APB 25 requires a company to  
8 record compensation expense, measured as the difference between the exercise price and the  
9 market price of the stock on the measurement date, on "the first date on which are known both  
10 (1) the number of shares that an individual employee is entitled to receive and (2) the option or  
11 purchase price, if any." APB 25, ¶ 10(b).

12  
13  
14           170. Zoran violated APB No 25 by measuring compensation cost based on the low  
15 market price of the falsified, i.e. backdated, measurement dates, instead of the market price of the  
16 stock on the actual measurement date. This resulted in the Company's material misstatement of  
17 its financial results starting from at least January 1, 1997, despite the Individual Defendants'  
18 repeated misrepresentations to the shareholders that the Company had complied with APB 25.  
19 These misrepresentations included false certifications by Defendants Gerzberg and Schneider,  
20 the Company's CEO and CFO, respectively, in which they attested to the accuracy and  
21 completeness of the Company's financial statements.

22  
23 **K. Additional Standards of Conduct Breached By The Individual Defendants**

24           171. The Sarbanes-Oxley Act requires that Defendants Gerzberg and Schneider certify  
25 the accuracy of the Company's financial statements. Similarly, Defendants Gerzberg and  
26

1 Schneider were required publicly to certify that they had evaluated the Company's internal  
2 controls and did not detect any significant deficiencies in those controls.

3 172. Specifically, both Defendants Gerzberg and Schneider certified that:

4 1. I have reviewed this quarterly report on Form 10-Q of Zoran  
5 Corporation;

6 2. Based on my knowledge, this quarterly report does not contain any  
7 untrue statement of a material fact or omit to state a material fact  
8 necessary to make the statements made, in light of the circumstances  
9 under which such statements were made, not misleading with a respect to  
the period covered by this quarterly report;

10 3. Based on my knowledge, the financial statements, and other  
11 financial information included in this quarterly report, fairly present in all  
12 material respects the financial condition, results of operations and cash  
flows of the registrant as of, and for, the periods presented in this quarterly  
report;

13 4. The registrant's other certifying officer and I are responsible for  
14 establishing and maintaining disclosure controls and procedures (as  
15 defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant  
and we have:

16 (a) designed such disclosure controls and procedures, or  
17 caused such disclosure controls and procedures to be designed under our  
18 supervision, to ensure that material information relating to the registrant,  
19 including its consolidated subsidiaries, is made known to us by others  
within those entities, particularly during the period in which this quarterly  
report is being prepared;

20 (b) evaluated the effectiveness of the registrant's disclosure  
21 controls and procedures and presented in this quarterly report our  
22 conclusions about the effectiveness of the disclosure controls and  
23 procedures, as of the end of the period covered by this report based on  
such evaluation; and

24 (c) disclosed in this quarterly report any change in the  
25 registrant's internal control over financial reporting that occurred during  
26 the registrant's most recent fiscal quarter that has materially affected, or is  
reasonably likely to materially affect, the registrant's internal control over  
financial reporting; and



1           5.       The registrant's other certifying officer and I have disclosed, based  
2           on our most recent evaluation of internal control over financial reporting,  
3           to the registrant's auditors and the audit committee of the registrant's  
4           board of Directors:

5                   (a)     all significant deficiencies and material weaknesses in the  
6                   design or operation of internal control over financial reporting which are  
7                   reasonably likely to adversely affect the registrant's ability to record,  
8                   process, summarize and report information; and

9                   (b)     any fraud, whether or not material, that involves  
10                  management or other employees who have a significant role in the  
11                  registrant's internal control over financial reporting.

12       *See* Certification of Chief Executive Officer, attached as Exhibit 31.1 to Quarterly Report, Form  
13       10-Q for the quarter ended September 30, 2003 (filed November 14, 2003) (the "3Q 2003 10-Q")  
14       and Certification of Chief Financial Officer, attached as Exhibit 31.2 to 3Q 2003 10-Q.<sup>8</sup>

15           173.    As a consequence of the Individual Defendants' protracted backdating scheme, all  
16           of the SOX certifications, attesting to the accuracy of the Company's financial statements and  
17           certifying that they evaluated the Company's internal controls and did not detect any deficiencies  
18           in those controls, were materially false and misleading.

19           174.    As a consequence of the restatement of Zoran's financial statements, Defendants  
20           Gerzberg and Schneider may be required to disgorge bonuses or other compensation awarded to  
21           them during periods proximate to the restatement. *See* SOX § 304, 15 U.S.C. § 7243. Despite

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22       <sup>8</sup> The Certifications attached to the Company's quarterly reports for the first, second, and third  
23       quarters of 2003 and 2004 contain similar language. In addition, the Certificates attached to  
24       the Company's Quarterly Reports for 2005 and first quarter 2006 also certify that Defendants  
25       Gerzberg and Schneider have "[d]esigned such internal control over financial reporting, or  
26       caused such internal control over financial reporting to be designed under our supervision, to  
27       provide reasonable assurance regarding the reliability of financial reporting and the  
28       preparation of financial statements for external purposes in accordance with generally accepted  
29       accounting principles." *See, e.g.*, Certification of Chief Executive Officer attached as Exhibit  
30       31.1 to 10-Q for the quarter ended September 30, 2005 (filed November 9, 2005) (the "3Q  
31       2005 10-Q").

1 the record of protracted manipulation of the Company's stock option grants and related  
2 accounting, the Zoran Board of Directors has taken no action on behalf of the Company to  
3 recover this excess compensation. To the contrary, in its latest Form 8-K the Company disclosed  
4 the Compensation Committee's approval of *raises* and target bonuses for Defendants Gerzberg,  
5 Schneider, and Shenberg. *See* Current Report, Form 8-K (filed February 21, 2007).

6  
7 175. In addition to the fiduciary duties arising from state law, the Company's  
8 Directors, including those Directors named as Defendants herein, had the duty to ensure the  
9 accuracy and completeness of the Company's public filings. In order to adequately carry out  
10 these duties, it is necessary for the Directors to know and understand the material non-public  
11 information to be disclosed or omitted from the Company's public statements. This material  
12 non-public information included problems Zoran faced because of its deficient internal controls,  
13 of which the Directors were aware or should have been aware. Indeed, in 2005, the Company  
14 restated certain financial results due to management's discovery that the Company had  
15 recognized stock compensation expenses relating to the Company's acquisition of a subsidiary  
16 company. *See* Quarterly Report, Form 10-Q for the quarter ended March 31, 2005 (filed May  
17 10, 2005) (the "Q1 2005 10-Q"). Thus, the Directors knew or should have known of the specific  
18 accounting area of weakness but ignored or concealed the (then) eight-year course of backdating  
19 stock options.  
20

21  
22 176. Furthermore, Defendants Galil, Meindl and Stabenow, as members of the Audit  
23 Committee during the relevant period, had a special duty to know and understand this material  
24 information as set out in the Audit Committee's charter, which provides that the Audit  
25 Committee is responsible for reviewing, in conjunction with management, the Company's  
26 policies generally with respect to the Company's earnings announcements and with respect to  
27

1 financial information and earnings guidance provided to analysts and rating agencies. The  
2 Officer Defendants -- particularly Defendants Gerzberg, Schneider and Shenberg -- had ample  
3 opportunity to discuss this material information with their fellow officers at management  
4 meetings and via internal corporate documents and reports. Moreover, the Directors, including  
5 those named as Defendants herein, had ample opportunity to discuss this material information  
6 with fellow Directors at any of the scores of Board meetings that occurred during the relevant  
7 period, as well as at Board committee meetings. Despite these duties, the Individual Defendants  
8 negligently, recklessly, and/or intentionally caused or allowed, by their actions or inactions, the  
9 materially false and misleading statements alleged herein to be disseminated by Zoran to the  
10 investing public and the Company's shareholders during the relevant period.  
11

12 177. Even after the Individual Defendants' failed attempt to minimize the backdating  
13 controversy and later the revelation of a protracted backdating practice, the Audit Committee  
14 Defendants failed to enforce the Company's Code of Ethics, which in pertinent part provides:  
15

16 Any violation of applicable law or any deviation from the standards  
17 embodied in this Code will result in disciplinary action, up to and  
18 including termination of employment. Any employee engaged in the  
19 exercise of substantial discretionary authority, including any Senior  
20 Financial Officer, who is found to have engaged in a violation of law  
21 (other than a minor technical violation) or unethical conduct in connection  
with the performance of his or her duties for the Company shall be  
removed from his or her position and not assigned to any other position  
involving the exercise of substantial discretionary authority.

22 178. Compliance with the Company's Code of Ethics at the very least would have  
23 required the Audit Committee to relieve Defendant Schneider of his duties as CFO, in light of his  
24 unabated and prolonged failure to fulfill his duty of ensuring that the Company's fair and timely  
25 reporting of its results of operations, financial condition and other information.  
26  
27

1           179. Indeed, the Zoran Board, including those Directors named as Defendants herein,  
2 are incapable of taking any action because, as alleged herein, they themselves have indisputably  
3 violated securities laws as set forth in the Counts below, as well as § 11 of the Securities Act,  
4 under which they are strictly liable for their issuance of the false and misleading June 17, 2005  
5 Registration Statement. *See* Paragraphs 189-192, *infra*.

6  
7           180. Hence, the Audit Committee has effectively waived the Company's Code of  
8 Ethics. Had it not, the entire Board would itself be subject to disciplinary action for approving  
9 and publishing the false and misleading Registration Statement in violation of the federal  
10 securities regulations.

11 **L. Dissemination of Materially False and Misleading Financial Statements and Reports**

12           181. As a result of the Individual Defendants' backdating of stock options, the  
13 Company issued materially false and misleading financial statements and reports, including but  
14 not limited to annual reports, filed with the SEC and disseminated to shareholders and the public  
15 as Forms 10-K; proxy statements, filed with the SEC and disseminated to shareholders and the  
16 public as Forms DEF-14A; and other quarterly and interim reports. Each of the Individual  
17 Defendants knew or should have known that these statements were false and either knowingly  
18 participated in their dissemination or failed to prevent or correct them.

19  
20           182. As discussed above, these financial statements and reports were prepared and  
21 presented in violation of GAAP. Due to the improper backdating of the stock options alleged  
22 herein, these financial statements and reports overstated Zoran's net income and earnings and  
23 understated Zoran's compensation expense.  
24  
25  
26  
27

1           183. For instance, with respect to accounting for stock-based compensation, Zoran  
2 stated the following, which was materially false and misleading due to the options backdating  
3 alleged herein:

4                   *Stock compensation*

5                   The Company accounts for stock-based compensation using the intrinsic  
6 value method prescribed in Accounting Principles Board Opinion No. 25  
7 (“APB 25”), “Accounting for Stock Issued to Employees” and related  
8 interpretations. Under APB 25, compensation expense is recognized based  
9 on the difference, if any, on the date of grant between the fair value of the  
10 Company’s stock and the amount an employee must pay to acquire the  
11 stock. The compensation expense is recognized over the periods the  
employee performs the related services, generally the vesting period of  
four years, consistent with the multiple option method described in FASB  
Interpretation No. 28 (“FIN 28”).

12 Annual Report, Form 10-K for fiscal year 2002 (filed March 31, 2003) (the “2002 10-K”)  
13 (incorporated by reference into Zoran’s Proxy Statement, Form DEF-14A for fiscal year 2002  
14 (filed July 7, 2003) (the “2002 Proxy Statement”).<sup>9</sup>

15  
16  
17 <sup>9</sup> Zoran’s prior 10-Ks contained virtually identical language. *See, e.g.*, Annual Report, Form 10-  
18 K for fiscal year 1997 (filed March 31, 1998) (the “1997 10-K”); Annual Report, Form 10-K  
19 for fiscal year 1998 (filed March 31, 1999) (the “1998 10-K”) (“The Company accounts for  
20 stock-based compensation using the intrinsic value method prescribed in Accounting  
21 Principles Board Opinion No. 25 (‘APB 25’), ‘Accounting for Stock Issued to Employees’ and  
22 related interpretations. The Company provides additional pro forma disclosures as required  
23 under Statement of Financial Accounting Standards No. 123 (‘SFAS 123’), ‘Accounting for  
24 Stock-Based Compensation.’); *see also* Annual Report, Form 10-K for fiscal year 1999 (filed  
25 March 30, 2000) (the “1999 10-K”); Annual Report, Form 10-K for fiscal year 2000 (filed  
26 April 2, 2001) (the “2000 10-K”); Annual Report, Form 10-K for fiscal year 2001 (filed April  
27 1, 2002) (the “2001 10-K”) (“The Company accounts for stock-based compensation using the  
intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (‘APB 25’),  
‘Accounting for Stock Issued to Employees’ and related interpretations. Under APB 25,  
compensation expense is recognized based on the difference, if any, on the date of grant  
between the fair value of the Company’s stock and the amount an employee must pay to  
acquire the stock. The compensation expense is recognized over the periods the employee  
performs the related services, generally the vesting period of four years, consistent with the  
multiple option method described in FASB Interpretation No. 28 (‘FIN28’). The Company

184. In its Form 10-K for fiscal year 2003, Zoran similarly stated:

Stock compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations. Under APB 25, compensation expense is recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. The compensation expense is recognized over the periods the employee performs the related services, generally the vesting period of four years, consistent with the multiple option method described in FASB Interpretation No. 28 ("FIN 28").

Annual Report, Form 10-K for fiscal year 2003 (filed March 15, 2004) (the "2003 10-K"), incorporated by reference into Proxy Statement, Form DEF-14A for fiscal year 2003 (filed May 6, 2004) (the "2003 Proxy Statement").<sup>10</sup>

185. Each of the Company's 10-Ks identified above was signed by the Zoran Board of Directors serving at the time. This includes Directors Gerzberg (FY 1997-2005), Burgess (FY 2005), Galil (FY 1997-2005), Meindl (FY 1997-2005), Owens (FY 2003-2005), Rynne (FY 2003-2005), Stabenow (FY 1997-2005), and Young (FY 1997-2005).

186. Similarly, in furtherance of the backdating scheme, the Individual Defendants caused the Company to repeatedly issue false and misleading quarterly reports, each of which

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provides additional pro forma disclosures as required under Statement of Financial Accounting Standards No. 123 ('SFAS 123'), 'Accounting for Stock-Based Compensation.'").

<sup>10</sup> Like the Company's 2003 10-K, Zoran's 10-Ks for 2004 and 2005 contain substantively similar language regarding stock based compensation. Annual Report, Form 10-K for fiscal year 2004 (filed March 31, 2005) (the "2004 10-K") and Annual Report, Form 10-K for fiscal year 2005 (filed March 14, 2006) (the "2005 10-K").

1 falsely stated that the Company's "[s]tock options are generally granted with exercise prices  
2 equivalent to fair market value of the underlying common stock on the date of the grant, and no  
3 compensation cost is recognized." See Quarterly Report, Form 10-Q for quarter ended  
4 September 30, 2003 (filed November 13, 2003) (the "Q3 2003 10-Q"); Quarterly Report, Form  
5 10-Q for quarter ended June 30, 2003, (filed August 13, 2003) (the "Q2 2003 10-Q"); Q1 2003  
6 10-Q, Quarterly Report, Form 10-Q for quarter ended September 30, 2004 (filed November 9,  
7 2004) (the "Q3 2004 10-Q"); Quarterly Report, Form 10-Q for quarter ended June 30, 2004  
8 (filed August 9, 2004) (the "Q2 2004 10-Q"); Quarterly Report, Form 10-Q for quarter ended  
9 March 31, 2004 (filed May 10, 2004) (the "Q1 2004 10-Q"); Quarterly Report, Form 10-Q for  
10 quarter ended September 30, 2005 (filed November 9, 2005) (the "Q3 2005 10-Q"); Quarterly  
11 Report, Form 10-Q for quarter ended June 30, 2005 (filed August 9, 2005) (the "Q2 2005 10-  
12 Q"), Q1 2005 10-Q.

13  
14  
15 187. As the Company has now admitted, the Individual Defendants' backdating  
16 scheme resulted in the Company's regular granting of stock options with exercise prices below  
17 fair market value, which required the Company to recognize certain compensation costs. Due to  
18 the backdating of option grants as alleged herein, the Company failed to recognize appropriate  
19 compensation costs, resulting in the material misstatement of the Company's financial condition  
20 in each of these quarterly and annual reports, as set out in detail in Paragraphs 194-195, below.

21  
22 188. Despite their knowledge of the longstanding practice of backdating stock option  
23 grants and in order to continue the scheme so that they could exercise the previously granted  
24 backdated options to detriment of the Company, beginning in September 2003, Defendants  
25 Gerzberg and Schneider executed materially false and misleading SOX certifications, in which  
26  
27



1 they falsely certified the accuracy of the financial disclosures made in each quarterly report and  
2 falsely certified the adequacy of the internal controls of the Company.

3 189. On June 17, 2005, the Company filed a Form S-1 Registration Statement, in  
4 which the Individual Defendants caused it to again misrepresent its accounting treatment for  
5 stock options and materially understated the Company's stock compensation expenses.  
6

7 190. With regard to the Company's accounting treatment, the Registration Statement  
8 falsely represented that:

9 The Company accounts for stock-based compensation using the intrinsic  
10 value method prescribed in Accounting Principles Board Opinion No. 25  
11 ("APB 25"), "Accounting for Stock Issued to Employees" and related  
12 interpretations. Under APB 25, compensation expense is recognized based  
13 on the difference, if any, on the date of grant between the fair value of the  
14 Company's stock and the amount an employee must pay to acquire the  
15 stock. The compensation expense is recognized over the periods the  
16 employee performs the related services, generally the vesting period of  
17 four years, consistent with the multiple option method described in FASB  
18 Interpretation No. 28 ("FIN 28").

19 191. The Registration Statement also included the Company's financial results for  
20 2002, 2003, and 2004, each of which materially understated the Company's total cost and  
21 expenses and materially misstated the Company's operating loss for each respective period, and  
22 all of which are admittedly unreliable and are in the process of being restated by the Company.  
23

24 192. The 2005 Registration Statement and the false statements therein were approved  
25 and signed by Defendants CEO Gerzberg and CFO Schneider and the entire current Board of  
26 Directors of Zoran: Defendants Galil, Burgess, Meindl, Stabenow and Owens, as well as non-  
27 Defendants Rynne and Young.

28 193. As officers or Directors, and signatories of the Registration Statement, all of the  
individuals listed in the preceding paragraph are strictly liable for violating § 11(a) of the



Securities Act of 1933 because of the false and misleading statement of the Company's financial results and its accounting treatment for stock option compensation.

194. In addition, between fiscal year 1997 and the present, the Company, with the effect of concealing the options backdating scheme, filed with the SEC numerous annual and other reports, which were materially false and misleading. Specifically, the reports overstated net income and earnings per share and understated the Company's compensation expense, as a result of the backdating alleged herein. The annual reports included and misstated, at a minimum, the following reported results:

<b>Form 10-K Filed March 14, 2006</b>	
Total Cost and Expenses	\$422,858,000
Operating Loss	(\$27,100,000)
Net Loss	(\$26,971,000)

<b>Form 10-K Filed March 31, 2005</b>	
Total Cost and Expenses	\$425,721,000
Operating Income (loss)	(\$46,857,000)
Net Income (loss)	(\$47,354,000)

<b>Form 10-K Filed March 15, 2004</b>	
Total Cost and Expenses	\$288,532,000
Operating Income (loss)	(\$72,004,000)
Net Income (loss)	(\$67,978,000)

<b>Form 10-K Filed March 31, 2003</b>	
Total Cost and Expenses	\$142,286,000
Operating Income (loss)	\$6,831,000
Net Income (loss)	\$5,698,000

<b>Form 10-K Filed April 1, 2002</b>	
Total Cost and Expenses	\$152,513,000
Operating Income (loss)	(\$44,804,000)
Net Income (loss)	(\$36,065,000)

<b>Form 10-K Filed April 1, 2001</b>	
Total Cost and Expenses	\$107,538,000
Operating Income (loss)	(\$27,867,000)

Net Income (loss)	(\$20,608,000)
-------------------	----------------

<b>Form 10-K Filed March 30, 2000</b>	
Total Cost and Expenses	\$55,425,000
Operating Income	\$6,249,000
Net Income	\$6,659,000

<b>Form 10-K Filed 1999</b>	
Total Cost and Expenses	\$44,135,000
Operating Income (loss)	\$90,000
Net Income (loss)	\$929,000

<b>Form 10-K Filed March 31, 1998</b>	
Total Cost and Expenses	\$41,028,000
Operating Income (loss)	\$3,899,000
Net Income (loss)	\$4,229,000

<b>Form 10-K Filed March 31, 1997</b>	
Total Cost and Expenses	\$42,108,000
Operating Income (loss)	\$2,001,000
Net Income (loss)	\$2,363,000

195. Similarly, the backdating scheme resulted in the Company's repeated filing of materially false and misleading quarterly reports, which understated the Company's compensation expense while overstating net income. For years 2001-2005, these included, at a minimum, the following misstated reported financial results:

<b>Form 10-Q September 30, 2005</b>	
Total Cost and Expenses	\$112,047,000
Operating Income (Loss)	\$5,437,000
Net Income (Loss)	\$4,958,000

<b>Form 10-Q March 31, 2005</b>	
Total Cost and Expenses	\$93,085,000
Operating Loss	(\$19,201,000)
Net Loss	(\$18,796,000)

<b>Form 10-Q June 30, 2005</b>	
Total Cost and Expenses	\$106,413,000

Operating Loss	(\$11,334,000)
Net Loss	(\$11,055,000)

<b>Form 10-Q March 31, 2004</b>	
Total Cost and Expenses	\$91,665,000
Operating Loss	(\$11,028,000)
Net Income (Loss)	(\$10,689,000)

<b>Form 10-Q June 30, 2004</b>	
Total Cost and Expenses	\$108,919,000
Operating Income (Loss)	(\$5,203,000)
Net Income (Loss)	(\$6,145,000)

<b>Form 10-Q September 30, 2004</b>	
Total Cost and Expenses	\$121,128,000
Operating Loss	(\$1,381,000)
Net Loss	(\$3,519,000)

<b>Form 10-Q March 31, 2003</b>	
Total Cost and Expenses	\$39,084,000
Operating Loss	(\$1,251,000)
Net Income (Loss)	\$193,000

<b>Form 10-Q June 30, 2003</b>	
Total Cost and Expenses	\$41,208,000
Operating Income (Loss)	\$3,523,000
Net Income	\$4,233,000

<b>Form 10-Q September 30, 2003</b>	
Total Cost and Expenses	\$122,908,000
Operating Income (Loss)	(\$55,488,000)
Net Income (Loss)	(\$54,484,000)

<b>Form 10-Q March 31, 2002</b>	
Total Cost and Expenses	\$32,538,000
Operating Loss	\$(1,448,000)
Net Loss	(\$235,000)

<b>Form 10-Q June 30, 2002</b>	
Total Cost and Expenses	\$34,430,000
Operating Loss	\$(436,000)
Net Income (Loss)	\$1,030,000

<b>Form 10-Q September 30, 2002</b>	
Total Cost and Expenses	\$40,245,000
Operating Income (Loss)	\$3,812,000
Net Income (Loss)	\$4,707,000

<b>Form 10-Q March 31, 2001</b>	
Total Cost and Expenses	\$32,985,000
Operating Income (Loss)	(\$13,302,000)
Net Income (Loss)	(\$10,600,000)

<b>Form 10-Q June 30, 2001</b>	
Total Cost and Expenses	\$35,119,000
Operating Loss	(\$13,195,000)
Net Loss	(\$10,617,000)

<b>Form 10-Q September 30, 2001</b>	
Total Cost and Expenses	\$40,405,000
Operating Income (Loss)	(\$9,981,000)
Net Income (Loss)	(\$8,055,000)

**M. Dissemination of Materially False and Misleading Proxy Statements**

196. As a result of the Individual Defendants' backdating of stock options, the Company also issued materially false and misleading financial statements and reports in the form of proxy statements, filed with the SEC and disseminated to shareholders and the public as Forms DEF-14A and DEFR-14A. Each of the Individual Defendants knew or should have known that these statements were false and either knowingly participated in their dissemination or knowingly failed to prevent or correct them.

197. As discussed above, the financial statements and reports contained in or incorporated by reference into Zoran's proxy statements were prepared and presented in violation of GAAP and SEC rules. Due to the improper backdating of the stock options alleged herein, these financial statements and reports overstated Zoran's net income and earnings and understated Zoran's compensation expense.

198. On June 10, 1998, the Company, with the effect of concealing the improper option backdating, filed with the SEC and disseminated to Zoran's shareholders the Company's proxy statement, which provided, among other things, notice of and information for Zoran's annual shareholders' meeting to be held June 10, 1998. Proxy Statement, Form DEF-14A for fiscal year 1997 (filed April 30, 1998) (the "1997 Proxy Statement").

199. The 1997 Proxy Statement reported the following stock option grants to the following Individual Defendants:<sup>11</sup>

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
1/2/1997	Aharon, Aharon	\$17.50	60,000
5/6/1997	Farkash, Shmuel	\$14.00	14,000
7/23/1997	Shenberg, Isaac	\$19.75	40,000
7/23/1997	Goldberg, Paul	\$19.75	10,000
7/23/1997	Gerzberg, Levy	\$19.75	75,000
7/23/1997	Sinar, Alex	\$19.75	30,000
<b>Total</b>			<b>229,000</b>

200. The 1997 Proxy Statement also reported that "Stock options are granted at market price of the Company's Common Stock on the date of grant and will provide value to the executive officers only when the price of the Common Stock increases over the exercise price" and that "[a]ll options were granted at an exercise price equal to the fair market value of the Common Stock on the date of grant."

201. These statements were materially false and misleading in light of the backdating alleged herein. The 1997 Proxy Statement failed to report the true value of the compensation

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<sup>11</sup> The grant dates utilized for the tables in this section of Plaintiff's Complaint are based on the exercise prices and expiration dates as reported by the Company in its annual Proxy Statements, filed and disseminated to its shareholders on Form DEF-14A, and in some cases Form 4s filed by various Defendants.

1 paid to the Individual Defendants or that the options were backdated as alleged herein, rather  
 2 than issued on the date at which the stock traded at the market value identified in the proxy  
 3 statement. Thus, backdated stock options provided undisclosed compensation to the executive  
 4 officers on the date of the grant.

5  
 6 202. In the 1997 Proxy Statement, the Directors also recommended that Zoran's  
 7 stockholders "approve an amendment to the Company's 1993 Stock Option Plan to increase the  
 8 number of shares of Common Stock reserved for issuance thereunder by 450,000 shares."

9 203. On April 30, 1999, the Company, with the effect of concealing the improper  
 10 option backdating, filed with the SEC and disseminated to Zoran's shareholders the Company's  
 11 1998 Proxy Statement, which provided, among other things, notice of and information for  
 12 Zoran's annual shareholders' meeting to be held June 18, 1999.

13  
 14 204. The 1998 Proxy Statement reported the dates of stock option grants to following  
 15 Individual Defendants:

Purported Date of Grant	Officer	Exercise Price	Number of Options
1/26/1998	Schneider, Karl	\$13.38	10,000
1/26/1998	Farkash, Shmuel	\$13.38	1,000
8/4/1998	Aharon, Aharon	\$5.94	20,000
8/4/1998	Aharon, Aharon	\$5.94	90,000
8/4/1998	Gerzberg, Levy	\$5.94	40,000
8/4/1998	Gerzberg, Levy	\$5.94	191,666
8/4/1998	Goldberg, Paul	\$5.94	15,000
8/4/1998	Goldberg, Paul	\$5.94	40,000
8/4/1998	Shenberg, Isaac	\$5.94	15,000
8/4/1998	Shenberg, Isaac	\$5.94	40,000
8/4/1998	Sinar, Alex	\$5.94	10,000
8/4/1998	Sinar, Alex	\$5.94	30,000
<b>Total</b>			<b>502,666</b>

1           205. As illustrated in Section V.E above, both the January 26, 1998 grant and the  
2 August 4, 1998 grant are suspect for having been backdated, given the subsequent increase in the  
3 value of Zoran's stock immediately after these purported grant dates.

4           206. The 1998 Proxy Statement also stated that "[s]tock options are granted at market  
5 price of the Company's common stock on the date of grant and will provide value to the  
6 executive officers only when the price of Common Stock increases over the exercise price,"  
7 which was materially false and misleading in light of the backdating alleged herein.

8           207. The 1998 Proxy Statement failed to report the true value of the compensation paid  
9 to the Individual Defendants or that the options were backdated as alleged herein, rather than  
10 issued on the date at which the stock traded at the market value identified in the proxy statement.  
11 Thus, backdated stock options provided undisclosed compensation to the executive officers on  
12 the date of the grant.  
13

14           208. In the 1998 Proxy Statement, the Directors also recommended that Zoran's  
15 stockholders "approve an amendment to the Company's 1993 Stock Option Plan to increase the  
16 number of shares of Common Stock reserved for issuance thereunder by 350,000 shares."  
17

18           209. The Compensation Committee, in its report included in the 1998 Proxy Statement,  
19 touted the benefits of the Plan, stating in part that "[l]onger term incentives are provided through  
20 the 1993 Stock Option Plan, which rewards executives and other employees through the growth  
21 in value of the Company's stock." The Compensation Committee thereafter reported that it had  
22 approved "an offer to all officers and other employees of the Company to exchange outstanding  
23 options with exercise prices above the then-current trading price for options with an exercise  
24 price equal to the then-current trading price, August 4, 1998 (the "Effective Date")." As noted  
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26  
27

above, the August 4, 1998 grants have been identified by CFRA and by Plaintiff as having likely been backdated.

210. The Individual Defendants knew or reasonably should have known of these misstatements and omissions and failed to prevent or correct them.

211. On June 26, 2000, the Company, with the effect of concealing the improper option backdating, filed with the SEC and disseminated to Zoran's shareholders the Company's 1999 Proxy Statement, which provided, among other things, notice of and information for Zoran's annual shareholders' meeting to be held July 18, 2000.

212. The 1999 Proxy Statement reported the dates of stock option grants to the following Individual Defendants:

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
8/4/1999	Aharon, Aharon	\$20.38	30,000
8/4/1999	Gerzberg, Levy	\$20.38	55,000
8/4/1999	Goldberg, Paul	\$20.38	15,000
8/4/1999	Schneider, Karl	\$20.38	15,000
8/4/1999	Shenberg, Isaac	\$20.38	20,000
<b>Total</b>			<b>135,000</b>

213. As illustrated in Section V.E above, the purported option grants on August 4, 1999 are suspicious and were identified in the CFRA report as being at "risk for backdating."

214. The 1999 Proxy Statement stated further that "[a]ll options were granted at an exercise price equal to the fair market value of the Common Stock on the date of the grant," which was materially false and misleading in light of the backdating alleged herein.<sup>12</sup> The

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<sup>12</sup> The 1999 Proxy Statement attached as an Exhibit the 1993 Stock Option Plan (As Amended Through June 18, 2000), which stated, "12. TIME OF GRANTING OPTIONS. Unless otherwise specified by the Committee, the date of grant of an Option under the Plan shall be the date on which the Committee makes the determination granting such Option."



1 Individual Defendants knew or reasonably should have known of these misstatements and failed  
2 to prevent or correct them.

3         215. In the 1999 Proxy Statement, the Directors also recommended that Zoran's  
4 stockholders approve an amendment to the Company's 1993 Stock Option Plan to increase the  
5 number of shares of Common Stock reserved for issuance thereunder by 980,000 shares.  
6

7         216. The Compensation Committee, in its report included in the 1999 Proxy Statement,  
8 continued to tout the benefits of the Plan, stating in part that "[l]onger term incentives are  
9 provided through the 1993 Stock Option Plan, which rewards executives and other employees  
10 through the growth in value of the Company's stock. . . . Stock options are granted at an exercise  
11 price equal to the market price of our common stock on the date of the grant and will provide  
12 value to the executive officers only when the price of our common stock increases over the  
13 exercise price," which was materially false and misleading in light of the backdating alleged  
14 herein. The 1999 Proxy Statement failed to report the true value of the compensation paid to the  
15 Officer Defendants or that the options were backdated as alleged herein, rather than issued on the  
16 date at which the stock traded at the market value identified in the proxy statement. Thus,  
17 backdated stock options provided undisclosed compensation to the executive officers on the date  
18 of the grant.  
19

20         217. On April 30, 2001, the Company, with the effect of concealing the improper  
21 option backdating, filed with the SEC and disseminated to Zoran's shareholders the Company's  
22 2000 Proxy Statement, which provided, among other things, notice of and information for  
23 Zoran's annual shareholders' meeting to be held June 29, 2001.  
24

25         218. The 2000 Proxy Statement reported the dates of stock option grants to the  
26 following Individual Defendants:  
27

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
7/28/2000	Aharon, Aharon	\$41.00	50,000
7/28/2000	Gerzberg, Levy	\$41.00	90,000
7/28/2000	Schneider, Karl	\$41.00	30,000
7/28/2000	Shenberg, Isaac	\$41.00	40,000
<b>Total</b>			210,000

219. As illustrated in Section V.E above, the value of the Company's shares rose more than 10% immediately after this grant.

220. The 2000 Proxy Statement stated that "[a]ll options were granted at an exercise price equal to the fair market value of the Common Stock on the date of the grant," which was materially false and misleading in light of the backdating alleged herein. The Individual Defendants knew or reasonably should have known of these misstatements and failed to prevent or correct them.

221. The Compensation Committee, in its report included in the 2000 Proxy Statement, continued to tout the benefits of the Plan, stating in part that "[l]onger term incentives are provided through the 1993 Stock Option Plan, which rewards executives and other employees through the growth in value of the Company's stock. . . . Stock options are granted at an exercise price equal to the market price of our common stock on the date of the grant and will provide value to the executive officers only when the price of our common stock increases over the exercise price," which was materially false and misleading in light of the backdating alleged herein.

222. The 2000 Proxy Statement failed to report the true value of the compensation paid to the Officer Defendants or that the options were backdated as alleged herein, rather than issued on the date at which the stock traded at the market value identified in the proxy statement. Thus,

backdated stock options provided undisclosed compensation to the executive officers on the date of the grant.

223. In addition, in the Report of the Audit Committee included in the 2000 Proxy Statement, the Audit Committee “recommended to the Board of Directors that the Company’s audited financial statements be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.” The Audit Committee Defendants knew or reasonably should have known that these financial statements were materially false and misleading due to the backdating alleged herein.

224. On April 30, 2002, the Company, with the effect of concealing the improper option backdating, filed with the SEC and disseminated to Zoran’s shareholders the Company’s 2001 Proxy Statement, which provided, among other things, notice of and information for Zoran’s annual shareholders’ meeting to be held June 21, 2002.

225. The 2001 Proxy Statement reported the dates of stock option grants to the following Individual Defendants:

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
2/7/2001	Aharon, Aharon	\$15.50	35,000
2/7/2001	Gerzberg, Levy	\$15.50	50,000
2/7/2001	Schneider, Karl	\$15.50	25,000
2/7/2001	Shenberg, Isaac	\$15.50	30,000
3/16/2001	Stabenow, Arthur	\$13.00	2,500
8/21/2001	Martino, Camillo	\$32.00	150,000
9/19/2001	Gerzberg, Levy	\$17.28	75,000
9/19/2001	Schneider, Karl	\$17.28	45,000
9/19/2001	Shenberg, Isaac	\$17.28	55,000
10/31/2001	Martino, Camillo	\$25.29	50,000
<b>Total</b>			<b>517,500</b>

1           226. The 2001 Proxy Statement stated that “[a]ll options were granted at an exercise  
2 price equal to the fair market value of our common stock on the date of the grant,” which was  
3 materially false and misleading in light of the backdating alleged herein.<sup>13</sup> Specifically, the  
4 Individual Defendants have essentially admitted that the purported September 19, 2001 option  
5 grant was backdated. Defendant Schneider filed a Form 4 on December 22, 2006 disclosing that  
6 the his options tied to that date had been re-priced to reflect the exercise price of Zoran’s stock  
7 on September 26, 2001, seven days later than the original purported grant date. The Individual  
8 Defendants knew or reasonably should have known of these misstatements and failed to prevent  
9 or correct them.  
10

11           227. In the 2001 Proxy Statement, the Directors also recommended that Zoran’s  
12 stockholders approve “an amendment to the Company’s 1993 Stock Option Plan to increase the  
13 number of shares of common stock reserved for issuance thereunder by 750,000 shares,” as well  
14 as “an amendment to Zoran’s 1995 Outside Directors Stock Option Plan (a) to increase the  
15 number of shares of common stock authorized for issuance thereunder by 50,000 shares, and (b)  
16 to increase the size of the option granted annually to each outside Director from 4,800 shares to  
17 10,000 shares.”  
18

19           228. The Compensation Committee, in its report included in the 2001 Proxy Statement,  
20 continued to tout the benefits of the Plan, stating in part that “[l]onger term incentives are  
21 provided through the 1993 Stock Option Plan, which rewards executives and other employees  
22 through the growth in value of the Company’s stock. . . . Stock options are granted at an exercise  
23

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24 <sup>13</sup> The 2001 Proxy Statement attached as Appendix B the 1993 Stock Option Plan, which stated,  
25 “12. TIME OF GRANTING OPTIONS. Unless otherwise specified by the Committee, the  
26 date of grant of an Option under the Plan shall be the date on which the Committee makes the  
27 determination granting such Option.”  
28

1 price equal to the market price of our common stock on the date of the grant and will provide  
2 value to the executive officers only when the price of our common stock increases over the  
3 exercise price,” which was materially false and misleading in light of the backdating alleged  
4 herein.

5  
6 229. The 2001 Proxy Statement failed to report the true value of the compensation paid  
7 to the Officer Defendants or that the options were backdated as alleged herein, rather than issued  
8 on the date at which the stock traded at the market value identified in the proxy statement. Thus,  
9 backdated stock options provided undisclosed compensation to the executive officers on the date  
10 of the grant.

11  
12 230. In addition, the Report of the Audit Committee included in the 2001 Proxy  
13 Statement states that “the audit committee recommended to the board of Directors that [the  
14 Company’s] audited financial statements be included in [the Company’s] annual report on Form  
15 10-K for the year ended December 31, 2001.” The Audit Committee Defendants knew or  
16 reasonably should have known that these financial statements were materially false and  
17 misleading due to the backdating alleged herein.

18  
19 231. On July 7, 2003, the Company, with the effect of concealing the improper option  
20 backdating, filed with the SEC and disseminated to Zoran’s shareholders the Company’s 2002  
21 Proxy Statement, which provided information concerning a merger proposal whereby Zoran  
22 would acquire Oak Technology, Inc. and provided, among other things, notice of and  
23 information for Zoran’s shareholders’ meeting to be held August 8, 2003.

24  
25 232. The 2002 Proxy Statement reported the dates of stock option grants to the  
26 following Director Defendants:

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
8/9/2002	Gerzberg, Levy	\$12.36	427,500
8/9/2002	Schneider, Karl	\$12.36	75,000
8/9/2002	Shenberg, Isaac	\$12.36	82,500
8/21/2002	Martino, Camillo	\$14.93	75,000
10/17/2002	Martino, Camillo	\$13.60	75,000
<b>Total</b>			<b>735,000</b>

233. The 2002 Proxy Statement stated that “[a]ll options were granted at an exercise price equal to the fair market value of Zoran common stock on the date of the grant,” which was materially false and misleading in light of the backdating alleged herein. Specifically, the Individual Defendants have essentially admitted that the purported August 9, 2001 option grant was backdated. Defendants Schneider and Gerzberg filed Form 4s on December 22, 2006 disclosing that their options tied to that date had been re-priced to reflect the exercise price of Zoran’s stock on August 22, 2001, nearly two weeks after the original purported grant date. The Individual Defendants knew or reasonably should have known of these misstatements and failed to prevent or correct them.

234. The Compensation Committee, in its report included in the 2002 Proxy Statement, continued to tout the benefits of the Plan, stating in part that “[l]onger term incentives are provided through the 1993 Stock Option Plan, which rewards executives and other employees through the growth in value of the Company’s stock. . . . Stock options are granted at an exercise price equal to the market price of Zoran common stock on the date of the grant and will provide value to the executive officers only when the price of our common stock increases over the exercise price,” which was materially false and misleading in light of the backdating alleged herein.

1           235. The 2002 Proxy Statement failed to report the true value of the compensation paid  
2 to the Officer Defendants or that the options were backdated as alleged herein, rather than issued  
3 on the date at which the stock traded at the market value identified in the proxy statement. Thus,  
4 backdated stock options provided undisclosed compensation to the executive officers on the date  
5 of the grant.  
6

7           236. With respect to compliance with IRC § 162(m), the 2002 Proxy Statement  
8 provides:

9           Section 162(m) of the Internal Revenue Code restricts federal income tax  
10 deductibility by Zoran of executive compensation paid to Zoran's chief  
11 executive officer and each of the four other most highly compensated  
12 executive officers holding office at the end of any year to the extent such  
13 compensation exceeds \$1,000,000 for any of such officers in any year and  
14 does not qualify for an exemption under Section 162(m) or related  
15 regulations. The Compensation Committee's policy is to qualify its  
16 executive compensation for deductibility under applicable tax laws to the  
17 extent practicable and consistent with Zoran's compensation objectives.  
18 Income related to stock options granted under Zoran's 1993 Stock Option  
19 Plan, generally qualifies as performance-based compensation exempt from  
20 these restrictions imposed by Section 162(m). Other compensation paid to  
21 the executive officers for 2002 did not approach the \$1,000,000 limit per  
22 executive officer and is unlikely to do so in the foreseeable future. The  
23 Compensation Committee will consider appropriate actions should the  
24 individual non-performance-based compensation of any executive officer  
25 ever approach the \$1,000,000 level.

19 As demonstrated above, this statement was materially false and misleading in light of the options  
20 backdating alleged herein. The options backdating scheme resulted in Zoran's violation of IRC  
21 § 162(m) by taking tax deductions based on stock option grants that were not payable solely on  
22 account of the attainment of one or more performance goals, and therefore violated the terms of  
23 applicable stock option plans.  
24

25           237. In addition, the Report of the Audit Committee included in the 2002 Proxy  
26 Statement states that "the Audit Committee recommended to the board of Directors that [the  
27

1 Company's] audited financial statements be included in [the Company's] annual report on Form  
2 10-K for the year ended December 31, 2002." The Audit Committee Defendants knew or  
3 reasonably should have known that these financial statements were materially false and  
4 misleading due to the backdating alleged herein.

5  
6 238. Management's Discussion and Analysis of Financial Condition and Results of  
7 Operation of Zoran, contained in the 2002 Proxy Statement, likewise misrepresented that  
8 "Zoran's consolidated financial statements...ha[d] been prepared in accordance with  
9 accounting principles generally accepted in the United States of America."

10 239. The 2002 Proxy Statement section titled "Selected Historical Consolidated  
11 Financial Data of Zoran," includes consolidated income sheet and balance sheet data for years  
12 1998 through 2002, as well as purported results for the first fiscal quarters of 2002 and 2003.  
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## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF ZORAN

	Three Months Ended March 31,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(in thousands, except per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Revenues:							
Product sales	\$ 37,097	\$ 29,105	\$ 141,314	\$ 100,012	\$ 67,782	\$ 52,887	\$ 33,465
Software, licensing and development	736	1,985	7,803	7,697	11,889	8,787	10,760
Total revenues	37,833	31,090	149,117	107,709	79,671	61,674	44,225
Costs and expenses:							
Cost of product sales	26,710	18,832	86,904	64,740	37,993	28,523	19,036
Research and development	4,479	5,521	22,083	23,210	18,628	12,651	13,548
Selling, general and administrative	6,942	5,740	24,856	21,330	19,148	14,251	11,551
Merger and related	953	2,445	8,443(1)	43,233	31,769(3)	—	—
Total costs and expenses	39,084	32,538	142,286	152,513	107,538	55,425	44,135
Operating income (loss)	(1,251)	(1,448)	6,831	(44,804)	(27,867)	6,249	90
Interest and other income (expense), net	1,571	1,459	439(4)	10,004	9,229	1,585	1,071
Income (loss) before income taxes	320	11	7,270	(34,800)	(18,638)	7,834	1,161
Provision for income taxes	127	246	1,572	1,265	1,970	1,175	232
Net income (loss)	\$ 193	\$ (235)	\$ 5,698	\$ (36,065)	\$ (20,608)	\$ 6,659	\$ 929
Basic net income (loss) per share	\$ 0.01	\$ (0.01)	\$ 0.21	\$ (1.38)	\$ (0.91)	\$ 0.41	\$ 0.06
Diluted net income (loss) per share	\$ 0.01	\$ (0.01)	\$ 0.20	\$ (1.38)	\$ (0.91)	\$ 0.36	\$ 0.06
Shares used to compute basic net income (loss) per share	27,396	26,774	27,095	26,190	22,605	16,266	15,063
Shares used to compute diluted net income (loss) per share	28,096	26,774	28,629	26,190	22,605	18,374	16,679

	As of March 31, 2003		December 31,				
	2002	2001	2000	1999	1998		
(in thousands)							

**Consolidated Balance Sheet Data:**

Cash, cash equivalents and short-term investments	\$ 136,897	\$ 137,075	\$ 110,105	\$ 175,638	\$ 145,632(2)	\$ 19,175	
Working capital	165,295	159,288	130,777	197,719	157,583	30,830	

Total assets	344,594	342,616	331,344	359,466(3)	182,468	49,170
Accumulated deficit	(88,299)	(88,492)	(94,190)	(58,125)	(37,517)	(44,176)
Total stockholders' equity	311,448	311,012	297,838	331,454(3)	163,445	36,186

240. The financial information contained in the 2002 Proxy Statement's Historical Consolidated Financial Data was prepared and presented in violation of GAAP. Due to the improper backdating alleged herein, these financial results overstated Zoran's net income and earnings and understated Zoran's compensation expense.

241. In addition, the 2002 Proxy Statement incorporated by reference Zoran's Quarterly Report, Form 10-Q for the quarter ended March 31, 2003 (filed May 5, 2003) (the "Q1 2003 10-Q"), signed by Defendant Schneider, which reported first quarter 2002 and 2003 net income (loss) of \$(235) and \$193, respectively, and first quarter 2002 and 2003 earnings (loss) per share of \$(0.01) and \$0.01, respectively. Due to the improper backdating of the stock options alleged herein, these financial statements and reports overstated Zoran's net income and earnings and understated Zoran's compensation expense for these periods.

242. The 2002 Proxy Statement also incorporated by reference Zoran's 2002 10-K, signed by Defendants Gerzberg, Schneider, Galil, Meindl, Stabenow, and Young. The 2002 10-K contained additional materially false and misleading statements, including overstated net income and earnings per share and understated compensation expenses due to the backdating alleged herein.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
(in thousands, except per share data)					
<b>Consolidated Statement of Operations</b>					
<b>Data:</b>					
<b>Revenues:</b>					
Product sales	\$ 141,314	\$ 100,012	\$ 67,782	\$ 52,887	\$ 33,465
Software, licensing and development	7,803	7,697	11,889	8,787	10,760
Total revenues	149,117	107,709	79,671	61,674	44,225
<b>Costs and expenses:</b>					
Cost of product sales	86,904	64,740	37,993	28,523	19,036
Research and development	22,083	23,210	18,628	12,651	13,548
Selling, general and administrative	24,856	21,330	19,148	14,251	11,551
Amortization of intangible assets	8,443	9,697	1,982	—	—
Amortization of goodwill and write-off of acquired in-process research & development	—	33,536	29,787	—	—
Total costs and expenses	142,286	152,513	107,538	55,425	44,135
Operating income (loss)	6,831	(44,804)	(27,867)	6,249	90
Interest income	7,053	9,853	9,280	1,467	1,194
Other income (loss)(1)	(6,614)	151	(51)	118	(123)
Income (loss) before income taxes	7,270	(34,800)	(18,638)	7,834	1,161
Provision for income taxes	1,572	1,265	1,970	1,175	232
Net income (loss)	\$ 5,698	\$ (36,065)	\$ (20,608)	\$ 6,659	\$ 929
Basic net income (loss) per share(2)	\$ 0.21	\$ (1.38)	\$ (0.91)	\$ 0.41	\$ 0.06
Diluted net income (loss) per share(2)	\$ 0.20	\$ (1.38)	\$ (0.91)	\$ 0.36	\$ 0.06
Shares used to compute basic net income (loss) per share(2)	27,095	26,190	22,605	16,266	15,063
Shares used to compute diluted net income (loss) per share(2)	28,629	26,190	22,605	18,374	16,679

243. On May 6, 2004, the Company filed with the SEC and disseminated to Zoran's shareholders the Company's revised 2003 Proxy Statement, on Form DEF14A, which provided, among other things, notice of and information for Zoran's annual shareholders' meeting to be held June 18, 2004.

244. As of the date of the 2003 Proxy Statement, the 1993 Plan had expired. Shareholder Proposal No. 2 in the 2003 Proxy Statement was consideration of the adoption of the 2004 Equity Incentive Plan (the "2004 Plan"), which does not appear to have been adopted, but was virtually identical to the 2005 Plan that was adopted the following year. This new Plan would increase the equity incentive options to include stock appreciation rights, restricted stock, restricted stock unit awards, performance share and performance unit awards, deferred compensation awards and other stock-based or cash-based awards, noting in particular the recent

FASB changes governing the accounting treatment of share-based payments. In the proxy materials recommending that shareholders approve the new plan, Zoran's Board of Directors acknowledged that it was "well aware of the criticism that has been leveled generally against the misuse of stock-based compensation by some companies. The Board believes that the 2004 Plan takes steps to address possible concerns of our stockholders." Under the 2004 Plan, stock options and stock appreciation rights could not be repriced without the approval of Zoran's stockholders, and no discount from fair market value was permitted in setting the exercise price of stock options and stock appreciation rights.

245. The 2003 Proxy Statement reported the dates of stock option grants to the following Individual Defendants:

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
4/29/2003	Owens, James	\$17.31	30,000
7/15/2003	Gerzberg, Levy	\$24.78	609,358
7/15/2003	Martino, Camillo	\$24.78	260,000
7/15/2003	Schneider, Karl	\$24.78	200,000
7/15/2003	Shenberg, Isaac	\$24.78	200,000
7/17/2003	Meindl, James	\$24.16	15,000
7/17/2003	Stabenow, Arthur	\$24.16	15,000
7/17/2003	Uzia, Galil	\$24.16	15,000
7/17/2003	Young, Philip	\$24.16	15,000
8/11/2003	Rynne, David	\$23.91	30,000
<b>Total</b>			<b>1,389,358</b>

246. The Compensation Committee's decision to grant Director Defendants Meindl, Stabenow, Uzia, and Young options under the 1993 Plan as opposed to the 1995 Directors Plan raises questions in its own right. The fact that the value of Zoran's stock rose nearly three dollars per share in the six trading days following the grant simply adds another layer to the suspicious financial circumstances underlying this grant.

1           247. Among other things, the 2003 Proxy Statement continued to mislead shareholders  
2 concerning the option grants, stating, for example, that “The 2004 Plan is also designed to  
3 preserve Zoran’s ability to deduct in full for federal income tax purposes the compensation  
4 recognized by its executive officers in connection with certain awards granted under the 2004  
5 Plan.” This statement was false and misleading due to the backdating alleged herein.

6           248. The 2003 Proxy Statement identified option grants to the Individual Defendants  
7 and stated that “[a]ll options were granted at market value on the date of grant.”  
8

9           249. Furthermore, while a review of the above chart indicates that there were four  
10 dates upon which options were purportedly granted in 2003, the 2003 Proxy Statement reveals  
11 that the Compensation Committee only met three times during that year.

12           250. As noted above, the Proxy Statement for fiscal year 2004 disclosed that “[a]t the  
13 time of the 2003 annual meeting, the Directors Plan was suspended, and therefore, the other  
14 Outside Directors did not receive Annual Options under the Directors Plan. In place of the  
15 Annual Options that Directors James B. Meindl, Uzia Galil, Arthur B. Stabenow and Philip M.  
16 Young would have received under the Directors Plan, equivalent options were granted to these  
17 Directors under our 1993 Stock Option Plan.” Proxy Statement, Form DEF-14A for fiscal year  
18 2004 (filed June 1, 2005) (the “2004 Proxy Statement”).  
19

20           251. The Compensation Committee’s decision to grant the Directors stock options  
21 under the 1993 Plan cannot be considered an equivalent replacement when the dates of those  
22 grants are taken into account. As stated above, the 1995 Directors’ Plan calls for shares to be  
23 paid under a formula-based system on the day after the annual meeting of the shareholders. That  
24 meeting took place on August 8, 2003. Instead of issuing Defendants Meindl, Stabenow, Uzia,  
25 and Young stock options on the day after the annual shareholders meeting, whether under the  
26  
27

1 1995 Directors Plan or the improperly utilized 1993 Plan, the Individual Defendants caused the  
2 Company to issue the Directors options *three weeks earlier*, purportedly on July 17, 2003. As  
3 noted in paragraph 134 above, immediately after this grant, Zoran's stock price increased  
4 sharply.

5  
6 252. The Directors' Form 4 reports of changes in beneficial ownership are equally  
7 suspicious. Section 16(a) of the Exchange Act requires that officers, Directors, and individuals  
8 who beneficially own more than 10% of a corporation's common stock to file a Form 4 with the  
9 SEC. Pursuant to § 16(a)(2)(C), these Form 4s must be filed "before the end of the second  
10 business day following the day on which the subject transaction has been executed."

11  
12 253. However, Zoran's 2003 Proxy Statement discloses that the requisite Form 4 for  
13 *each and every one of the options grants issued in 2003* was delinquentlly filed by the Individual  
14 Defendants receiving those grants, violating the shareholder protection measure of the Sarbanes-  
15 Oxley Act and providing Individual Defendants with the ability to again manipulate the grant  
16 dates for stock options to officers and Directors of the Company.

17  
18 254. An analysis of the Form 4s filed by the Individual Defendants demonstrates that  
19 the Defendant Owens did not file a Form 4 for the purported April 29, 2003 grant until  
20 September 1, 2004, nearly eighteen months later; the Officer Defendants did not file Form 4s for  
21 the purported July 15, 2003 grant until July 25, 2003; the Director Defendants did not file Form  
22 4s for the purported July 17, 2003 grant until July 22, 2003; and Form 4s for the August 11, 2003  
23 grants were not filed until August 22, 2003.<sup>14</sup>

24  
25 <sup>14</sup> The Company's 2003 Proxy Statement indicates that Defendant Owens received two options  
26 grants in 2003 and that Form 4s for both grants were delinquentlly filed. However, a review of  
27 the Form 4s filed at [www.sec.gov](http://www.sec.gov), reflect that only one Form 4, pertaining to the April 29,  
2003 transaction, was ever filed regarding Owens.



255. On June 1, 2005, the Company filed with the SEC and disseminated to Zoran's shareholders the Company's 2004 Proxy Statement, which provided, among other things, notice of and information for Zoran's annual shareholders' meeting to be held July 13, 2005. Among the stated purposes for the 2005 annual meeting was the approval of the 2005 Equity Plan and the 2005 Directors Plan. In the proxy materials recommending that shareholders approve the new plan, Zoran's Board of Directors acknowledged that it was "well aware of the criticism that has been leveled generally against the misuse of stock-based compensation by some companies. The Board believes that the 2005 Plan takes steps to address possible concerns of our stockholders." Under both of the 2005 Plans, stock options and stock appreciation rights could not be repriced without the approval of Zoran's stockholders, and no discount from fair market value was permitted in setting the exercise price of stock options and stock appreciation rights.

256. The Company was precluded from offering options grants to the Officer Defendants in 2004 because the 1993 Plan had expired and the shareholders had not yet approved a replacement plan. The Company did, however, issue options grants to the Directors, as identified below, which raises questions regarding the possible backdating of these options.

257. The 2004 Proxy Statement reported the dates of stock option grants to the following Individual Defendants:

<b>Purported Date of Grant</b>	<b>Defendant</b>	<b>Exercise Price</b>	<b>Number of Options</b>
6/21/2004	Meindl, James	\$17.16	15,000
6/21/2004	Owens, James	\$17.16	15,000
6/21/2004	Rynne, David	\$17.16	15,000
6/21/2004	Stabenow, Arthur	\$17.16	15,000
6/21/2004	Uzia, Galil	\$17.16	15,000
6/21/2004	Young, Philip	\$17.16	15,000
<b>Total</b>			<b>90,000</b>

258. As illustrated in Section V.E above, in the seven days following this purported grant date, the value of Zoran's shares increased substantially.

259. The 2004 Proxy Statement also continued to mislead shareholders concerning the option grants, stating, for example, that "The 2005 Plan is also designed to preserve Zoran's ability to deduct in full for federal income tax purposes the compensation recognized by its executive officers in connection with certain awards granted under the 2005 Plan." This statement was false and misleading in light of the backdating scheme alleged herein.

260. On May 1, 2006, the Company filed with the SEC and disseminated to Zoran's shareholders the Company's 2005 Proxy Statement, which provided, among other things, notice of and information for Zoran's annual shareholders' meeting to be held June 22, 2006. Among the purposes laid out for the 2005 annual meeting was the approval of an increase in the maximum aggregate number of shares that could be awarded under the 2005 Equity Plan by 2,500,000 shares.

261. The 2005 Proxy Statement reported the dates of stock option grants to the following Individual Defendants:

<b>Purported Date of Grant</b>	<b>Officer</b>	<b>Exercise Price</b>	<b>Number of Options</b>
4/26/2005	Burgess, Raymond	\$9.06	30,000
8/19/2005	Gerzberg, Levy	\$13.59	180,000
8/19/2005	Schneider, Karl	\$13.59	60,000
8/19/2005	Shenberg, Isaac	\$13.59	54,000
11/23/2005	Meindl, James	\$16.60	15,000
11/23/2005	Owens, James	\$16.60	15,000
11/23/2005	Rynne, David	\$16.60	15,000
11/23/2005	Stabenow, Arthur	\$16.60	15,000
11/23/2005	Uzia, Galil	\$16.60	15,000
11/23/2005	Young, Philip	\$16.60	15,000
<b>Total</b>			<b>414,000</b>



1           262. As discussed in Section V.E above, Plaintiff's analysis of the Compensation  
2 Committee's 2005 grants demonstrates that the Individual Defendants' were still backdating  
3 options, particularly the purported April 26, 2005 grant to Burgess and the purported August 19,  
4 2005 grants to Defendants Gerzberg, Schneider, and Shenberg, all of which occurred  
5 immediately before a substantial increase in the value of the Company's stock.  
6

7           263. Included in the 2005 Proxy Statement is the report of the Compensation  
8 Committee on Executive Compensation. The Compensation Committee reported that "[s]tock  
9 options are granted at an exercise price equal to the market price of Zoran common stock on the  
10 date of grant and will provide value to the executive officers only when the market price of the  
11 common stock increases over the exercise price." In light of the backdating alleged herein, this  
12 statement was materially false and misleading. The Individual Defendants knew or reasonably  
13 should have known of these misstatements and failed to prevent or correct them.  
14

15           264. The 2005 Proxy Statement failed to report the true value of the compensation paid  
16 to the Officer Defendants or that the options were backdated as alleged herein, rather than issued  
17 on the date at which the stock traded at the market value identified in the proxy statement. Thus,  
18 backdated stock options provided undisclosed compensation to the executive officers on the date  
19 of the grant.  
20

21           265. In addition, for those Director grants purportedly awarded on November 23, 2005,  
22 no Form 4s were filed within the required two business-day time period. In fact, the first Form  
23 4s regarding this transaction were not filed until December 1, 2005, more than a week late. This  
24 is confirmed by the 2005 Proxy Statement, which admits as much.

25           266. Reviewing the Company's stock for that time period, it is readily apparent that the  
26 November 23, 2005 date coincides suspiciously with a relatively low point in the Company's  
27

1 stock price. By December 1, 2005, the Company's stock had rebounded and increased  
2 significantly. On information and belief, and in furtherance of the Individual Defendants'  
3 overarching scheme, the Individual Defendants backdated this option grant to take advantage of  
4 the November 23, 2005 low point in the stock price.

5  
6 **N. Insider Sales by Insider Selling Defendants.**

7 267. Throughout the time period at issue in herein, and during their tenures with the  
8 Company, the Insider Selling Defendants, while in possession of material, non-public  
9 information about the Individual Defendants' misconduct, including the backdating of options  
10 and inadequate internal controls that led to the dissemination of materially false and misleading  
11 financial reports, nevertheless concealed this adverse information while selling millions of shares  
12 of Company's stock for personal gain.

13  
14 268. The Insider Sales Defendants have obtained approximately \$47.5 million in  
15 unlawful insider trading proceeds by selling their own Zoran stock while it traded at prices  
16 artificially inflated by Individual Defendants' false statements about Zoran's financial results.

17 269. These insider sales were undertaken during the same time period, from at least  
18 1997 through 2005, in which Individual Defendants filed materially false financial statements  
19 concealing the Individual Defendants' backdating scheme.

20  
21 270. Defendant Aharon was Zoran's Senior Vice President and Chief Operating  
22 Officer from October 1998 to October 2001; Vice President of Engineering from August 1997 to  
23 October 1998; and Vice President, Engineering-Haifa Operations from February 1997 to August  
24 1997. As a result of his positions with the Company, Aharon had access to, and in fact knew,  
25 material adverse non-public information regarding the Company, including information about its  
26 finances, business strategy and forecasts, and past and future business prospects as a result of his  
27

1 access to non-public documents and reports, and his relationships with corporate officers,  
2 Directors, and employees. As COO, Aharon was integral to the stock option approval process.  
3 Using his knowledge of material non-public information regarding the Company, from 1997  
4 through the present, Aharon sold at least 130,886 shares of Zoran stock, including shares  
5 obtained by exercising options granted to him by the Company, for proceeds of more than \$4.9  
6 million.  
7

8 271. Defendant Gerzberg is Zoran's President and Chief Executive Officer, a position  
9 he has held since December 1988. As a result of his positions with the Company, Gerzberg had  
10 access to, and in fact knew, material adverse non-public information regarding the Company,  
11 including information about its finances, business strategy and forecasts, and past and future  
12 business prospects as a result of his access to non-public documents and reports, and his  
13 relationships with his fellow corporate officers, Directors, and employees. As CEO, he was also  
14 intricately involved in the stock option approval process. Using his knowledge of material non-  
15 public information regarding the Company, from 1997 through the present, Gerzberg has sold at  
16 least 760,637 shares of Zoran stock, including shares obtained by exercising options granted to  
17 him by the Company, for proceeds of more than \$24 million.  
18

19 272. Defendant Goldberg was Zoran's Vice President of Audio Products and  
20 Intellectual Properties from October 1998 to approximately January 2001 and Vice President,  
21 Systems Solutions from June 1996 to October 1998. As a result of his positions with the  
22 Company, Goldberg had access to, and in fact knew, material adverse non-public information  
23 regarding the Company, including information about its finances, business strategy and forecasts,  
24 and past and future business prospects as a result of his access to non-public documents and  
25 reports, and his relationships with his fellow corporate officers, Directors, and employees. Using  
26  
27

1 this material non-public information, from 1997 through the present, Goldberg has sold at least  
2 53,427 shares of Zoran stock, including shares obtained by exercising options granted to him by  
3 the Company, for proceeds of more than \$2 million.

4 273. Defendant Martino was Zoran's Executive Vice President and Chief Operating  
5 Officer from August 2001 until July 2005. As a result of his positions with the Company,  
6 Martino had access to, and in fact knew, material adverse non-public information regarding the  
7 Company, including information about its finances, business strategy and forecasts, and past and  
8 future business prospects as a result of his access to non-public documents and reports, and his  
9 relationships with his fellow corporate officers, Directors, and employees. As COO, he was  
10 integral to the stock option approval process. Using this material non-public information, from  
11 1997 through the present, Martino sold at least 32,601 shares of Zoran stock, including shares  
12 obtained by exercising options granted to him by the Company, for proceeds of more than  
13 \$840,000.

14 274. Defendant Schneider is Zoran's Vice President, Finance and Chief Financial  
15 Officer, a position he has held since July 1998. He was also the Company's Corporate  
16 Controller from January 1998 to July 1998. As a result of his positions with the Company,  
17 Schneider had access to, and in fact knew, material adverse non-public information regarding the  
18 Company, including information about its finances, business strategy and forecasts, and past and  
19 future business prospects as a result of his access to non-public documents and reports, and his  
20 relationships with his fellow corporate officers, Directors, and employees. As CFO, he was  
21 integral to every aspect of the stock option approval process. Using this material non-public  
22 information, from 1997 through the present, Schneider has sold at least 135,339 shares of Zoran  
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1 stock, including shares obtained by exercising options granted to him by the Company, for  
2 proceeds of more than \$4 million.

3       275. Defendant Shenberg is Zoran's Senior Vice President, Business and Strategic  
4 Development, a position he has held since October 1998. He was also the Company's Vice  
5 President, Sales and Marketing from January 1995 through October 1998 and Product Line  
6 Business Manager from August 1990 until January 1995. As a result of his positions with the  
7 Company, Shenberg had access to, and in fact knew, material adverse non-public information  
8 regarding the Company, including information about its finances, business strategy and forecasts,  
9 and past and future business prospects as a result of his access to non-public documents and  
10 reports, and his relationships with his fellow corporate officers, Directors, and employees.  
11 Using this material non-public information, from 1997 through the present, Shenberg has sold at  
12 least 188,625 shares of Zoran stock, including shares obtained by exercising options granted to  
13 him by the Company, for proceeds of more than \$5 million.  
14

15       276. Defendant Alex Sinar was Zoran's Vice President of Operations from February  
16 1997 to February 1999 and the Company's Director of Manufacturing from January 1995 to  
17 February 1997. As a result of his positions with the Company, Sinar had access to, and in fact  
18 knew, material adverse non-public information regarding the Company, including information  
19 about its finances, business strategy and forecasts, and past and future business prospects as a  
20 result of his access to non-public documents and reports, and his relationships with his fellow  
21 corporate officers, Directors, and employees. Using this material non-public information, from  
22 1997 through the present, Sinar sold at least 23,625 shares of Zoran stock, including shares  
23 obtained by exercising options granted to him by the Company, for proceeds of more than \$1.2  
24 million.  
25  
26  
27

1           277. Defendant Meindl is a member of Zoran's Board of Directors, a position he has  
2 held since March 1986. He was a member of the Audit Committee from at least 1996 until April  
3 2005 when he was replaced by Defendant James B. Owens, Jr. Meindl has been a member of the  
4 Compensation Committee since April 2004, when he replaced Owens, and was a member of the  
5 Nominating and Corporate Governance Committee in 2001. As a result of his positions with the  
6 Company, Meindl had access to, and in fact knew, material adverse non-public information  
7 regarding the Company, including information about its finances, business strategy and forecasts,  
8 and past and future business prospects as a result of his access to non-public documents and  
9 reports, and his relationships with his fellow Directors, officers, and employees. Using this  
10 material non-public information, from 1997 through the present, Meindl has sold at least 128,166  
11 shares of Zoran stock, including shares obtained by exercising options granted to him by the  
12 Company, for proceeds of more than \$4.6 million.  
13  
14

15           278. Defendant Stabenow is on Zoran's Board of Directors, a position he has held  
16 since November 1990. As a result of his positions with the Company, Stabenow had access to,  
17 and in fact knew, material adverse non-public information regarding the Company, including  
18 information about its finances, business strategy and forecasts, and past and future business  
19 prospects as a result of his access to non-public documents and reports, and his relationships with  
20 his fellow Directors, officers, and employees. Using this material non-public information, from  
21 1997 through the present, Stabenow has sold at least 29,166 shares of Zoran stock, including  
22 shares obtained by exercising options granted to him by the Company, for proceeds of more than  
23 \$1.3 million.  
24  
25  
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27

1           279. In order to realize the profit from their backdating scheme, Defendants Gerzberg  
2 and Schneider have engaged in insider trading of the Company's stock to the Company's  
3 detriment and financial loss.

4           280. On March 1, 2006, Gerzberg exercised 70,000 of his 75,000 backdated options  
5 manipulated to benefit from the stock's temporary drop following September 11, 2001.  
6

7           281. On April 27, 2006, Gerzberg exercised 96,000 backdated options that were  
8 manipulated to the low closing price on August 9, 2002.

9           282. On May 1, 2006, Schneider exercised 113,200 options, 25,000 of which were  
10 manipulated to benefit from the post 9/11 stock price drop.

11           283. On May 19, 2006, Gerzberg exercised another 36,000 backdated options that had  
12 been manipulated to the low closing price on August 9, 2002.  
13

14           284. Each of these transactions is part of the ongoing scheme perpetrated by  
15 Defendants and results in the Individual Defendants' unjust enrichment.

16           285. These damages to the Company will continue to increase with each exercise of  
17 the discounted backdated stock options until all of the backdated options are re-priced, canceled  
18 or expired.

19           **VI. DERIVATIVE ACTION AND DEMAND FUTILITY ALLEGATIONS**

20           286. Plaintiff brings this action derivatively on behalf of and for the benefit of Zoran to  
21 redress injuries suffered, and yet to be suffered by Zoran, as a direct and proximate result of  
22 Individual Defendants' breaches of fiduciary duty, aiding and abetting the other Individual  
23 Defendants' breach of fiduciary duty, unjust enrichment, constructive fraud, abuse of control,  
24 waste of corporate assets, gross mismanagement and violation of federal securities law. Zoran is  
25 named as a nominal defendant solely in a derivative capacity.  
26  
27

1           287. Plaintiff was a Zoran shareholder during the relevant period described herein  
2 during which the alleged wrongdoing occurred; Plaintiff has held Zoran common stock during  
3 the relevant period, and intends to retain these shares of Zoran stock through the duration of this  
4 litigation.

5           288. The Individual Defendants' fiduciary breaches are of a continuing nature. By  
6 recommending, instituting and maintaining Stock Option Plans which they violated by  
7 authorizing the grant of impermissibly backdated options, the Individual Defendants commenced  
8 an overarching scheme or plan intended to benefit the Individual Defendants personally to the  
9 disadvantage of Zoran and its shareholders. This scheme or plan was then furthered by the  
10 Individual Defendants' misrepresentations in financial statements, periodic reports, and proxy  
11 statements filed with the SEC and disseminated to the Company's shareholders. The scheme or  
12 plan will not be complete until all of the outstanding options have been exercised or canceled,  
13 neither of which has yet occurred.

14           289. Plaintiff acquired his shares in the Company before any revelations of backdating  
15 had been made public, in the midst of the undisclosed scheme and prior to the exercise of  
16 thousands of backdated options granted throughout the course of the Individual Defendants'  
17 backdating scheme. As a result of the backdating scheme, the Company has repeatedly suffered  
18 financial losses due to the exercise of backdated options manipulated throughout the scheme.  
19 Further, as a result of Individual Defendants' scheme, the Company has suffered significant  
20 financial damage relating to investigating and re-stating the Company's financial results for a  
21 period of ten years, which has subjected, and will continue to subject, the Company to significant  
22 liabilities relating to regulatory investigation and penalties, tax liabilities to non-insider  
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27



1 employees, and the losses reflected in the Company's announced restatements of financial  
2 statements dating back to 1997.

3 290. Plaintiffs will adequately and fairly represent the interests of Zoran and its  
4 shareholders in enforcing and prosecuting Zoran's rights.

5 291. This action is not a collusive one to confer jurisdiction on a court of the United  
6 States that it would not otherwise have.

7  
8 292. Based on the facts set forth herein, Plaintiff has not made any demand on the  
9 Zoran Board of Directors to institute this action against the Individual Defendants. Such demand  
10 would be a futile and useless act. The Board of Directors is incapable of making an independent  
11 and disinterested decision to institute and vigorously prosecute this action. Furthermore, the  
12 Individual Defendants' misconduct served no legitimate business purpose and is of such a nature  
13 that it cannot be protected by the business judgment rule. Indeed, the members of the Board  
14 upon whom the demand would be served either actively participated in, or acquiesced to, the  
15 complained of behavior. All members of the Audit and/or Compensation Committee, including  
16 Defendants Gerzberg, Burgess, Galil, Meindl, and Owens, were directly responsible for  
17 authorizing the backdated options and/or approved the false financial statements.

18  
19 293. At the time this action was commenced, the Zoran Board of Directors consisted of  
20 Director Defendants Gerzberg, Burgess, Galil, Meindl, Owens, and Stabenow, and non-  
21 Defendant Directors Rynne and Young.

22  
23 **A. Defendant Gerzberg**

24 294. Defendant Gerzberg is incapable of disinterestedly considering a demand for the  
25 following reasons:

1 (a) As alleged herein, Defendant Gerzberg received at least 1,793,524 in stock  
2 option grants, a substantial percentage of which are alleged to have been backdated, and is thus  
3 directly interested in the subject matter of this litigation. In fact, by filing a Form 4 on December  
4 22, 2006 re-pricing the purported grants dated September 19, 2001 and August 9, 2002, Gerzberg  
5 admitted to having received stock option grants that were backdated;  
6

7 (b) Plaintiff has interviewed at least two former employees who are familiar  
8 with the administration of the stock options benefits during the relevant period (identified above  
9 as CW #1 and CW#2), and who would testify that, as CEO Gerzberg was intricately involved  
10 with and personally approved the granting of the stock option awards at issue here;  
11

12 (c) Gerzberg, as CEO, presumably was involved in the May 16-23, 2006  
13 investigation by "company management" that found no wrongdoing and no backdating of grants  
14 to executives, despite the later revelation of the Individual Defendants' backdating scheme;  
15

16 (d) As a member of the Zoran Board in 2006, Defendant Gerzberg ratified the  
17 May 16-23, 2006 initial investigation, and failed to take any action against the Individual  
18 Defendants despite the acknowledgement of the Board that option grants from 1997 forward had  
19 been improperly backdated;  
20

21 (e) Defendant Gerzberg has demonstrated that he is unable or unwilling to act  
22 independently of the Individual Defendants, including through his participation, with the other  
23 Individual Defendants, in the options backdating alleged herein;  
24

25 (f) As the Company's Chief Executive Officer, President, a Director and a  
26 signatory of the 2005 Registration Statement, Defendant Gerzberg is strictly liable for any  
27 material misstatements published therein and therefore cannot disinterestedly investigate claims  
28

1 that the Company's accounting disclosures and financial reporting were in fact materially false  
2 and misleading due to the backdating scheme.

3 (g) For the reasons set forth herein, Defendant Gerzberg is substantially likely  
4 to be held liable for breaching his fiduciary duties, violating the Exchange Act, and for other acts  
5 alleged against him as set forth herein;  
6

7 **B. Defendant Meindl**

8 295. Defendant Meindl is incapable of disinterestedly considering a demand for the  
9 following reasons:

10 (a) As alleged herein, Defendant Meindl received at least 76,800 in stock  
11 option grants, a substantial percentage of which are alleged to have been backdated, and is thus  
12 directly interested in the subject matter of this litigation;  
13

14 (b) As a member of the Audit Committee from 1996 through April 2005,  
15 Defendant Meindl directly participated in and approved the Company's violations of GAAP and  
16 IRC Section 162(m) and is responsible for approving the false financial statements that resulted  
17 from mischaracterization of the option grants as alleged herein. Defendant Meindl was also  
18 responsible for, and participated in, both the May 16-23, 2006 investigation that found that the  
19 options grants for years 1998, 1999, and 2001 were proper and that the executives had received  
20 no backdated option grants, as well as the second Company investigation that purportedly  
21 exonerated the Individual Defendants, including himself, from having intentionally backdated  
22 any option grants;  
23

24 (c) As a member of the Compensation Committee from April 2004 through  
25 the present, Defendant Meindl was directly responsible for authorizing the impermissible grants  
26  
27

1 of backdated options to the Individual Defendants and misrepresenting the same in the  
2 Company's SEC filings from that period, as alleged herein;

3 (d) As a member of the Zoran Board in 2006, Defendant Meindl ratified the  
4 May 16-23, 2006 initial investigation, and failed to take any action against the Individual  
5 Defendants despite the acknowledgement of the Board that option grants from 1997 forward had  
6 been improperly backdated;

7  
8 (e) Defendant Meindl has a decades-long professional and personal  
9 relationship with Defendant CEO Gerzberg, who was a PhD candidate studying under Meindl,  
10 and later a colleague at Stanford University, and therefore is not able to investigate these claims  
11 with an allegiance to the shareholders' interest;

12 (f) By colluding with the Individual Defendants, as alleged herein, Defendant  
13 Meindl has demonstrated that he is unable or unwilling to act independently of the Individual  
14 Defendants;

15  
16 (g) As a Company Director and a signatory of the 2005 Registration  
17 Statement, Defendant Meindl is strictly liable for any material misstatements published therein  
18 and therefore cannot disinterestedly investigate claims that the Company's accounting  
19 disclosures and financial reporting were in fact materially false and misleading due to the  
20 backdating scheme;

21  
22 (h) Defendant Meindl is substantially likely to be held liable for breaching his  
23 fiduciary duties, as alleged herein.

24 **C. Defendant Stabenow**

25 296. Defendant Stabenow is incapable of disinterestedly considering a demand for the  
26 following reasons:

1 (a) As alleged herein, Defendant Stabenow received at least 79,300 in stock  
2 option grants, a substantial percentage of which are alleged to have been backdated, and is thus  
3 directly interested in the subject matter of this litigation; improperly backdated stock option  
4 grants and is thus directly interested;

5  
6 (b) As a member of the Audit Committee from 1996 through the present, and  
7 as Chairman of the Audit Committee since 2004, Defendant Stabenow directly participated in  
8 and approved the Company's violations of GAAP and IRC Section 162(m) and is responsible for  
9 approving the false financial statements that resulted from mischaracterization of the option  
10 grants as alleged herein. As one of the designated financial experts on the Audit Committee,  
11 Defendant Stabenow understood the GAAP accounting implications of backdating options and  
12 understood that the Company's representations about APB 25 in the public filings he approved  
13 and signed were false and misleading. Defendant Stabenow was also responsible for, and  
14 participated in, both the May 16-23, 2006 investigation that found that the options grants for  
15 years 1998, 1999, and 2001 were proper and that executives had received no backdated grants, as  
16 well as the second Company investigation that purportedly exonerated the Individual  
17 Defendants, including himself, from having intentionally backdated any option grants;

18  
19 (c) As a member of the Compensation Committee from 1996 through the  
20 present, Defendant Stabenow was directly responsible for authorizing the impermissible grants  
21 of backdated options to the Individual Defendants and misrepresenting the same in the  
22 Company's SEC filings from 1997 through the present, as alleged herein;

23  
24 (d) As a member of the Zoran Board in 2006, Defendant Stabenow ratified the  
25 May 16-23, 2006 initial investigation, and failed to take any action against the Individual  
26

1 Defendants despite the acknowledgement of the Board that option grants from 1997 forward had  
2 been improperly backdated;

3 (e) By colluding with the Individual Defendants, as alleged herein, Defendant  
4 Stabenow has demonstrated that he is unable or unwilling to act independently of the Individual  
5 Defendants;

6 (f) As a Company Director and a signatory of the 2005 Registration  
7 Statement, Defendant Stabenow is strictly liable for any material misstatements published therein  
8 and therefore cannot disinterestedly investigate claims that the Company's accounting  
9 disclosures and financial reporting were in fact materially false and misleading due to the  
10 backdating scheme;

11 (g) On February 15, 2007, as a member of the Compensation Committee,  
12 Defendant Stabenow approved salary raises to Defendants Gerzberg, Schneider, and Shenberg,  
13 despite the Board's concurrent finding that the Company would have to re-state its financial  
14 results and recognize an estimated \$12-\$15 million charge in compensation expenses due to  
15 improper accounting practices that occurred under these executive officers' tenure, and despite  
16 the need to re-price the exercise prices for at least two sets of option grants backdated for the  
17 benefit of these Defendants, to September 26, 2001 and August 22, 2002;

18 (h) Stabenow is also a member of the Board of Directors of Applied Micro  
19 Circuits Corporation ("AMCC"), where he sits on the Audit Committee, the Compensation  
20 Committee, and the Corporate Governance Committee. Like Zoran, AMCC has been the subject  
21 to protracted investigations regarding its stock option practices, including inquiries by the SEC  
22 and the U.S. Attorneys Office for the Northern District of California. As a consequence of  
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27

1 backdating, in January 2007, AMCC restated its financial statements from the years 1999  
2 through Q1 2004, recording an additional \$95.2 million in compensation charges;<sup>15</sup> and

3 (i) Defendant Stabenow is substantially likely to be held liable for breaching  
4 his fiduciary duties, as alleged herein.

5 **D. Defendant Galil**

6 297. Defendant Galil is incapable of disinterestedly considering a demand for the  
7 following reasons:

8 (a) As alleged herein, he received at least 76,800 in stock option grants, a  
9 substantial percentage of which are alleged to have been backdated, and is thus directly  
10 interested in the subject matter of this litigation;

11 (b) As a member of the Audit Committee from 1996 through 2006, Defendant  
12 Galil directly participated in and approved the Company's violations of GAAP and IRC Section  
13 162(m) and is responsible for approving the false financial statements that resulted from  
14 mischaracterization of the option grants as alleged herein. As one of the designated financial  
15 experts on the Audit Committee, Defendant Galil understood the accounting implications of  
16 backdating options and understood that the Company's representations about APB 25 in the  
17 public filings he signed were false and misleading  
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<sup>15</sup> In addition to potential conflict, empirical studies suggest an increased likelihood of  
22 backdating among companies with interlocking boards (companies whose board members sit on  
23 boards of other companies that have backdated stock). Mark Hulbert, *Why Backdated Options*  
24 *Might Be Contagious*, N.Y. Times, Jan. 21, 2007, at 3.5 (citing John M. Bizjak, Michael L.  
25 Lemmon & Ryan J. Whitby, "Option Backdating and Board Interlocks," available at  
26 <http://papers.ssm.com/sol3/papers.cfm?abstract-id=946787>  
27

1 (c) As a member of the Compensation Committee from 1996 through the  
2 present, and Chairman of the Committee since 2004, Defendant Galil was directly responsible  
3 for authorizing the impermissible grants of backdated options to the Individual Defendants and  
4 misrepresenting the same in the Company's SEC filings from 1997 through the present, as  
5 alleged herein;  
6

7 (d) As a member of the Zoran Board in 2006 and Chairman of the Board since  
8 1983, Defendant Galil ratified the May 16-23, 2006 initial investigation, and failed to take any  
9 action against the Individual Defendants despite the acknowledgement of the Board that option  
10 grants from 1997 forward had been improperly backdated;  
11

12 (e) By colluding with the Individual Defendants, as alleged herein, Defendant  
13 Galil has demonstrated that he is unable or unwilling to act independently of the Individual  
14 Defendants;  
15

16 (f) In addition to being Chairman of the Board, Defendant Galil has a vested  
17 interest in protecting his friend and colleague, Defendant CEO Gerzberg, with whom he has  
18 worked for over twenty years and with whom he has additional commercial interests, including  
19 their membership on the prestigious Advisory Board of the California Israel Chamber of  
20 Commerce, where they sit along with Kenneth Levy, the founder and former head of KLA –  
21 Tencor who retired last October on the same day that KLA – Tencor announced a \$400 million  
22 restatement due to option backdating dating to 1997 and an agreement with Levy to re-price all  
23 of his retroactively dated stock options;  
24

25 (g) As a Company Director and a signatory of the 2005 Registration  
26 Statement, Defendant Galil is strictly liable for any material misstatements published therein and  
27 therefore cannot disinterestedly investigate claims that the Company's accounting disclosures  
28



1 and financial reporting were in fact materially false and misleading due to the backdating  
2 scheme;

3 (h) On February 15, 2007, as a member of the Compensation Committee,  
4 Defendant Galil approved salary raises to Gerzberg, Schneider, and Shenberg, despite the  
5 Board's concurrent finding that the Company would have to restate its financial results and  
6 recognize an estimated \$12-\$15 million charge in compensation expenses due to improper  
7 accounting practices that occurred under these executive officers' tenure, and despite the need to  
8 re-price the exercise prices for at least two sets of option grants backdated for the benefit of these  
9 Defendants, to September 26, 2001 and August 22, 2002;

10 (i) Defendant Galil is substantially likely to be held liable for breaching his  
11 fiduciary duties, as alleged herein.

12  
13 **E. Defendant Owens**

14 298. Defendant Owens is incapable of disinterestedly considering a demand for the  
15 following reasons:

16 (a) As alleged herein, Defendant Owens received at least 60,000 in stock  
17 option grants, a substantial percentage of which are alleged to have been backdated, and is thus  
18 directly interested in the subject matter of this litigation;

19 (b) As a member of the Audit Committee from 2005 through the present,  
20 Defendant Owens directly participated in and approved the Company's violations of GAAP and  
21 IRC Section 162(m) and is responsible for approving the false financial statements that resulted  
22 from mischaracterization of the option grants as alleged herein. Defendant Owens was also  
23 responsible for, and participated in, both the May 16-23, 2006 investigation that found that the  
24 options grants for years 1998, 1999, and 2001 were proper and that no executives received  
25  
26  
27

1 backdated grants, as well as the second Company investigation that purportedly exonerated the  
2 Individual Defendants, including himself, from having intentionally backdated any option grants;

3 (c) As a member of the Compensation Committee from 2003 through April  
4 2004, Defendant Owens was directly responsible for authorizing the impermissible grants of  
5 backdated options to the Individual Defendants and misrepresenting the same in the Company's  
6 SEC filings for that period, as alleged herein;

7  
8 (d) As a member of the Zoran Board in 2006, Defendant Owens ratified the  
9 May 16-23, 2006 initial investigation, and failed to take any action against the Individual  
10 Defendants despite the acknowledgement of the Board that option grants from 1997 forward had  
11 been improperly backdated;

12  
13 (e) By colluding with the Individual Defendants, as alleged herein, Defendant  
14 Owens has demonstrated that he is unable or unwilling to act independently of the Individual  
15 Defendants;

16 (f) As a Company Director and a signatory of the 2005 Registration  
17 Statement, Defendant Owens is strictly liable for any material misstatements published therein  
18 and therefore cannot disinterestedly investigate claims that the Company's accounting  
19 disclosures and financial reporting were in fact materially false and misleading due to the  
20 backdating scheme.

21  
22 (g) Defendant Owens is substantially likely to be held liable for breaching his  
23 fiduciary duties, as alleged herein.

24 **F. Defendant Burgess**

25 299. Defendant Burgess is incapable of disinterestedly considering a demand for the  
26 following reasons:

1 (a) As alleged herein, he received at least 30,000 option grants purportedly  
2 authorized by the Compensation Committee on April 26, 2005. The Form 4 for this option grant  
3 was not timely filed with the SEC, making it susceptible to having been backdated. Any  
4 investigation into backdating by the Compensation Committee and Individual Defendants will  
5 likely result in these options being subject to cancellation. Thus, he has an interest in ensuring  
6 that his stock options, and those of his fellow Directors and officers, remain in place.

7  
8 (b) As a member of the Audit Committee from 2005 through the present,  
9 Defendant Stabenow directly participated in and approved the Company's violations of GAAP  
10 and IRC Section 162(m) and is responsible for approving the false financial statements that  
11 resulted from mischaracterization of the option grants as alleged herein. Defendant Stabenow  
12 was also responsible for, and participated in, both the May 16-23, 2006 investigation that found  
13 that the options grants for years 1998, 1999, and 2001 were proper and that no executives  
14 received backdated grants, as well as the second Company investigation that purportedly  
15 exonerated the Individual Defendants, including himself, from having intentionally backdated  
16 any option grants;

17  
18 (c) As a member of the Zoran Board in 2006, Defendant Stabenow failed to  
19 question the May 16-23, 2006 initial investigation, and participated in the second investigation,  
20 at the conclusion of which, the Board failed to take any action against the Individual Defendants  
21 despite the acknowledgement of the Board that option grants from 1997 forward had been  
22 improperly backdated;

23  
24 (d) By colluding with the Individual Defendants, as alleged herein, Burgess  
25 has demonstrated that he is unable or unwilling to act independently of the Individual  
26 Defendants;

1 (e) As a Company Director and a signatory of the 2005 Registration  
2 Statement, Defendant Burgess is strictly liable for any material misstatements published therein  
3 and therefore cannot disinterestedly investigate claims that the Company's accounting  
4 disclosures and financial reporting were in fact materially false and misleading due to the  
5 backdating scheme.

6  
7 (f) On February 15, 2007, as a member of the Compensation Committee,  
8 Defendant Burgess approved salary raises to Gerzberg, Schneider, and Shenberg, despite the  
9 Board's concurrent finding that the Company would have to restate its financial results and  
10 recognize an estimated \$12-\$15 million charge in compensation expenses due to improper  
11 accounting practices that occurred under these executive officers' tenure, and despite the need to  
12 re-price the exercise prices for at least two sets of option grants backdated for the benefit of these  
13 Defendants, to September 26, 2001 and August 22, 2002;

14  
15 (g) Defendant Burgess was one of the two Directors appointed by the Board  
16 to the Special Committee tasked with investigating the allegations of backdating at the Company  
17 from 1997 through the present. The Special Committee has already shown an unwillingness to  
18 seek remedial relief against the Individual Defendants on behalf of the Company. Furthermore,  
19 the investigative period included 2005, when Burgess was a member of the Audit Committee,  
20 and engaged in the misconduct set forth in subsection (b) above. Thus, the Special Committee's  
21 investigation cannot have been undertaken independently and disinterestedly because any  
22 findings of misconduct related to FY 2005 forward would have rendered Burgess susceptible to  
23 liability. As a result of this insurmountable conflict on Burgess' behalf, and because he  
24 constituted 1/2 of the Special Committee, the Special Committee's investigation and conclusions  
25 regarding the Individual Defendants' misconduct were irreparably flawed; and  
26  
27

1 (h) Defendant Burgess is substantially likely to be held liable for breaching  
2 his fiduciary duties, as alleged herein.

3 **G. Director Rynne**

4 300. Director Rynne is incapable of disinterestedly considering a demand for the  
5 following reasons:

6 (a) As alleged herein, he received at least three sets of option grants totaling  
7 86,733 options, which were purportedly granted in 2003, 2004, and 2005. Form 4s for the 2003  
8 and 2005 grants were not timely filed with the SEC, making them susceptible to having been  
9 backdated. Likewise, the 2004 grant is suspicious in its timing for the reasons set forth in  
10 paragraph 135, above. Any investigation into backdating by the Compensation Committee and  
11 Individual Defendants will likely result in the cancellation of these options. Thus, he has an  
12 interest in ensuring that his stock options, and those of his fellow Directors and officers, remain  
13 in place;  
14

15 (b) As a member of the Zoran Board in 2006, Rynne ratified the May 16-23,  
16 2006 initial investigation, and participated in the second investigation, at the conclusion of  
17 which, the Board failed to take any action against the Individual Defendants despite the  
18 acknowledgement of the Board that option grants from 1997 forward had been improperly  
19 backdated;  
20

21 (c) By colluding with the Individual Defendants, as alleged herein, Rynne has  
22 demonstrated that he is unable or unwilling to act independently of the Individual Defendants;  
23

24 (d) As a Company Director and a signatory of the 2005 Registration  
25 Statement, Rynne is strictly liable for any material misstatements published therein and therefore  
26

1 cannot disinterestedly investigate claims that the Company's accounting disclosures and  
2 financial reporting were in fact materially false and misleading due to the backdating scheme;

3 (e) On February 15, 2007, as a member of the Compensation Committee,  
4 Rynne approved salary raises to Gerzberg, Schneider, and Shenberg, despite the Board's  
5 concurrent finding that the Company would have to restate its financial results and recognize an  
6 estimated \$12 - \$15 million charge in compensation expenses due to improper accounting  
7 practices that occurred under these executive officers' tenure, and despite the need to re-price the  
8 exercise prices for at least two sets of option grants backdated for the benefit of these  
9 Defendants, to September 26, 2001 and August 22, 2002; and  
10

11 (f) Rynne was one of the two Directors appointed by the Board to the Special  
12 Committee tasked with investigating the allegations of backdating at the Company from 1997  
13 through the present. The Special Committee has already shown an unwillingness to seek  
14 remedial relief against the Individual Defendants on behalf of the Company. The Special  
15 Committee was comprised of two Directors, Rynne and Defendant Burgess. As a result of the  
16 insurmountable conflict between Burgess' role as Individual Defendant and 1/2 of the Special  
17 Committee, the Special Committee's investigation and conclusions regarding the Individual  
18 Defendants' misconduct were irreparably flawed.  
19

20 **H. Director Young**

21 301. Director Young is incapable of disinterestedly considering a demand for the  
22 following reasons:  
23

24 (a) As alleged herein, Young received at least 76,800 option grants, many of  
25 which are suspect for having been backdated for the reasons set forth in Section V.E above.  
26 Form 4s for these grants were not timely filed with the SEC, making them prime candidates for  
27

1 having been backdated. Any investigation into backdating by the Compensation Committee and  
2 Individual Defendants will likely result in Young having these options canceled. Thus, he has an  
3 interest in ensuring that his stock options, and those of his fellow Directors and officers, remain  
4 in place at the backdated pricing;

5 (b) As a member of the Zoran Board in 2006, Young failed to question the  
6 May 16-23, 2006 initial investigation, and participated in the second investigation, at the  
7 conclusion of which, the Board failed to take any action against the Individual Defendants  
8 despite the acknowledgement of the Director Defendants that option grants from 1997 forward  
9 had been improperly backdated;

10 (c) By colluding with the Individual Defendants, as alleged herein, Young has  
11 demonstrated that he is unable or unwilling to act independently of the Individual Defendants;

12 (d) As a Company Director and a signatory of the 2005 Registration  
13 Statement, Young is strictly liable for any material misstatements published therein and therefore  
14 cannot disinterestedly investigate claims that the Company's accounting disclosures and  
15 financial reporting were in fact materially false and misleading due to the backdating scheme.

16 302. Thus, demanding that the Directors investigate the Individual Defendants' alleged  
17 wrongdoing would be futile. All eight Directors were actively engaged in the wrongdoing  
18 alleged herein through either (a) their receipt of backdated option grants, (b) their active  
19 participation in the authorization and concealment of the backdated option grants as members of  
20 the Compensation and Audit Committees from 1997 through 2005, or (c) their unreasonable and  
21 intentional approval of this scheme by their failure to take remedial action against the Individual  
22 Defendants, despite their admission of having backdated certain option grants. For the reasons  
23 stated above, at the time of the filing of this Complaint, there is, at minimum, a reasonable doubt  
24  
25  
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27

1 that the Board of Directors could have properly exercised its independent and disinterested  
2 business had Plaintiff made a demand upon the Board.

3 303. The Director Defendants' conduct since the alleged backdating came to light in  
4 the spring of 2006 further demonstrates that demand would be futile. As noted above, in  
5 response to the initial CFRA report documenting the potential for backdating, the Director  
6 Defendants, at the behest of the Audit Committee, appointed *the same* Company management  
7 that was receiving the backdated option grants to conduct the Company's investigation into the  
8 same. Unremarkably, the Individual Defendants found that they had done nothing wrong.

9 304. A second investigation, announced July 3, 2006, produced more of the same.  
10 That investigation was conducted by certain Director Defendants deemed by the Board to be  
11 "independent." The Board did not, however, identify who these "independent" Directors might  
12 be. Since most, if not all, of the Directors have received options that are suspect, any findings by  
13 the investigating Directors would likely lead to that same investigating Director being held liable  
14 to the Company.

15 305. At the conclusion of the second investigation, the Directors acknowledged that  
16 option grants from 1997 forward had been impermissibly backdated. However, the Directors  
17 claimed that *no one* in the Company had committed misconduct and did not bring suit against the  
18 Individual Defendants for their part in this backdating scheme.

19 306. Demand is also deemed futile where there is a reason to doubt whether the  
20 challenged transactions were a valid exercise of business judgment. Backdating options is the  
21 type of transaction that is so egregious on its face that board approval cannot meet the test of  
22 business judgment, and a substantial likelihood of Director liability therefore exists. Thus, there  
23 is no rational business purpose that can be served by the Directors' failure to bring suit to recoup  
24



1 the losses the Company suffered as a result of the Individual Defendants' misconduct, or to  
2 cancel the currently outstanding options that were granted as part of this scheme or plan.

3 307. As confirmed by the Form 4s filed in December 2006 by Defendants Gerzberg  
4 and by the Company's February 20, 2007 press release, the Company has admitted to at least  
5 three occasions on which (collectively) hundreds of thousands of stock options were backdated.  
6 Despite the acknowledged fact that both senior executives and non-executive employees  
7 received backdated stock options, the Board of Directors has failed to take action to recoup the  
8 Company's financial losses stemming from the past exercise of backdated options and to protect  
9 the Company from future loss by either re-pricing or canceling all of the unexercised backdated  
10 options. The Board's continuing failure to act on the Company's behalf underscores the futility  
11 of demanding that it institute and vigorously prosecute this action on behalf of the Plaintiff and  
12 his fellow shareholders.  
13

14 308. As pled herein, the terms of the Plans required that the exercise prices for options  
15 grants not be less than the fair market value of the stock subject to the option on the date the  
16 option is granted. Neither the Compensation Committee nor the Board was given the authority  
17 to contravene the terms of the Plans. The Compensation Committee nevertheless altered, or  
18 consented to the alteration of, the actual dates of the grants to reflect lower exercise prices for the  
19 shares. Knowing and intentional violations of stock options plans in this manner do not  
20 constitute a valid exercise of business judgment.  
21

22 309. The misconduct complained of herein was not, and could not have been, an  
23 exercise of good faith business judgment. The backdating of options constitutes self-dealing.  
24 The Individual Defendants participated in or benefited from backdating options and have the  
25 opportunity to further benefit from these options grants, which have not yet expired, and all  
26  
27

1 members of the Audit and/or Compensation Committee were directly responsible for authorizing  
2 the backdated options and/or approved the false financial statements. By granting options with  
3 backdated exercise prices, Individual Defendants undermined the purpose of the Stock Option  
4 Plans by awarding employees incentive compensation that was not tied to Zoran's stock  
5 performance as intended under the Plans. These acts served no legitimate purpose and were not  
6 the product of good faith business judgment. Such acts were unlawful and are therefore  
7 incapable of ratification. As a result, neither the business judgment rule, nor any pre-suit  
8 demand requirement is applicable here.  
9

10 310. The Board of Directors is incapable of disinterestedly considering a demand in  
11 this instance because it would require the Board to investigate and sue its own members, who,  
12 over the course of the past ten years, have approved generous compensation packages for one  
13 another. From fiscal 1997 to present, the Directors, including those named as Defendants herein,  
14 have received at least \$1,369,250 in cash and over 711,800 Zoran stock options.  
15

## 16 **VII. TOLLING OF THE STATUTE OF LIMITATIONS**

17 311. The Counts alleged herein are timely. As an initial matter, the Individual  
18 Defendants wrongfully concealed their manipulation of Zoran's stock option plans through  
19 strategic timing and backdating, by issuing false and misleading SEC filings, including proxy  
20 statements and quarterly and annual reports, by falsely reassuring Zoran's investors that Zoran's  
21 option grants were being administered by a committee of independent Directors, and by failing  
22 to disclose that backdated options were, in fact, actually issued on dates other than those  
23 disclosed, and that strategically timed option grants were issued based upon the manipulation of  
24 insider information, which ensured that the fair market value of the option as issued was higher  
25 than the exercise price on the actual date of the option grant.  
26  
27

1           312. Zoran's public investors had no reason to know of the Individual Defendants'  
2 breaches of their fiduciary duties until July 3, 2006, when Zoran disclosed that its internal  
3 investigation had discovered irregularities related to the issuance of certain stock option grants  
4 made between 1997 and 2005. The full extent of the Individual Defendants' breaches, and the  
5 damages caused as a result, is not known and cannot be known at this time.  
6

7           313. Finally, as fiduciaries of Zoran and its public shareholders, the Individual  
8 Defendants cannot rely on any limitations defense when they withheld from Zoran's public  
9 shareholders the facts that give rise to the claims asserted herein, *i.e.*, that the Individual  
10 Defendants its fiduciary responsibilities to oversee the Company's executive compensation  
11 practices, and that the option grant dates were manipulated so as to maximize the profit for the  
12 option grant recipients and, accordingly, to maximize the Company's costs.  
13

#### 14                           **VIII. CAUSES OF ACTION**

##### 15           **A. COUNT I: BREACH OF FIDUCIARY DUTY – OPTIONS BACKDATING** 16                           **(Against the Individual Defendants)**

17           314. Plaintiff incorporates by reference and realleges each and every allegation  
18 contained above, as though fully set forth herein.

19           315. By reason of their positions as executive officers and/or Directors of Zoran and  
20 because of their ability to control the business and corporate affairs of the Corporation, the  
21 Individual Defendants owe Zoran and its shareholders the fiduciary obligations of good faith,  
22 trust, loyalty, and due care, and are required to use their utmost ability to control and manage  
23 Zoran in a fair, just, honest, and equitable manner. The Individual Defendants are required to act  
24 in furtherance of the best interests of Zoran and its shareholders equally and not in furtherance of  
25 their or other fiduciaries' personal interests or benefit. Each officer and Director owes to the  
26

1 Company and its shareholders the fiduciary duty to exercise good faith and diligence in the  
2 administration of the Company and in the use and preservation of its property and assets, and the  
3 highest obligations of fair dealing.

4         316. The Individual Defendants violated and breached these duties by their actions  
5 described herein. The Officer Defendants received backdated options. The Directors, including  
6 those Directors named as Defendants herein, approved, administered, and ratified or permitted  
7 the backdated options to be granted to the Officer Defendants. These Defendants knew or, with  
8 exercise of reasonable care, should have known, that Zoran's executives were engaged in  
9 backdating stock options, that the option grants they approved were not actually executed on the  
10 dates reflected in the relevant documents, that the practice of backdating and failing to report the  
11 additional compensation was illegal, that the backdated stock options violated relevant  
12 provisions of the pertinent stock option Plans, and that the practice of backdating options was not  
13 an exercise of sound business judgment. The Audit and Compensation Committee Defendants  
14 nevertheless continued to approve such options or to acquiesce in their approval.

17         317. The Audit and Compensation Committee Defendants' intentional violation of the  
18 shareholder approved stock option plans, coupled with materially false and misleading  
19 disclosures regarding their compliance with those plans constitutes conduct that is disloyal to the  
20 Company, taken in bad faith and with disregard to the duties owed by these individuals to the  
21 Company.

23         318. By reason of the foregoing, Zoran has sustained and will continue to sustain  
24 damages and injuries, including but not limited to additional compensation expenses and tax  
25 liabilities Zoran was required to incur and the loss of funds paid to Zoran upon exercise of  
26 options. Plaintiff, on behalf of Zoran, has no adequate remedy at law.

1           319. In addition, the acts of Defendants Gerzberg and Schneider, if not the other  
2 Individual Defendants, were done maliciously, oppressively, and with intent to defraud. Thus,  
3 Plaintiff, on behalf of Zoran, is entitled to punitive and exemplary damages in an amount to be  
4 shown according to proof at the time of trial.

5  
6 **B. COUNT II: BREACH OF FIDUCIARY DUTY – INSIDER SELLING**  
7 **(Against the Insider Selling Defendants)**

8           320. Plaintiff incorporates by reference the allegations set forth above as though fully  
9 set forth herein.

10           321. At the time of the Insider Selling Defendants' stock sales alleged herein, these  
11 Defendants knew or, with exercise of reasonable care, should have known, that Zoran's  
12 executives were engaged in backdating stock options, that the option grants they approved were  
13 not actually executed on the dates reflected in the relevant documents, that the practice of  
14 backdating and failing to report the additional compensation was illegal, that the backdated stock  
15 options violated relevant provisions of the pertinent stock option Plans, and that the practice of  
16 backdating options was not an exercise of sound business judgment.

17           322. Additionally, at the time of the Insider Selling Defendants' stock sales alleged  
18 herein, these Defendants knew, or with the exercise of reasonable care should have known, that  
19 due to the backdating and other improprieties alleged herein, the Company's financial statements  
20 were materially false and misleading, its revenues were overstated, and its expenses were  
21 understated.

22           323. These Defendants further knew or should have known that these facts were  
23 material, had not been publicly disclosed, had caused Zoran to sustain damages, and would  
24 continue to do so.  
25  
26  
27

1           324. These Defendants nevertheless sold shares of Zoran stock while in possession of  
2 adverse, non-public information, in breach of their fiduciary duties described herein.

3           325. As a result of this conduct, the Insider Selling Defendants are liable to the  
4 Company for damages and/or the imposition of a constructive trust on these Defendants' illegal  
5 stock sales.  
6

7 **C. COUNT III: AIDING AND ABETTING BREACH OF FIDUCIARY DUTY**  
8 **(Against the Audit and Compensation Committee Defendants)**

9           326. Plaintiff incorporates by reference and realleges each and every allegation  
10 contained above, as though fully set forth herein.

11           327. As a result of the foregoing conduct, including their approval of the backdated  
12 stock options, the Audit and Compensation Committee Defendants participated in and facilitated  
13 the breach of fiduciary duties described herein.

14           328. By virtue of their role in creating and administering the Corporation's stock  
15 option Plans, and their approval and authorization of the stock options that were backdated as  
16 alleged herein, the Audit and Compensation Committee Defendants were able to, and in fact did,  
17 render aid and assistance to the Officer and Insider Selling Defendants in their breach of  
18 fiduciary duties. These Defendants did so when they knew or should have known that the  
19 practice of backdating was illegal, harmful to the company, inconsistent with GAAP and a  
20 breach of fiduciary duty.  
21

22           329. By reason of the foregoing, Zoran has sustained and will continue to sustain  
23 damages and injuries, including but not limited to additional compensation expenses and tax  
24 liabilities Zoran was required to incur and the loss of funds paid to Zoran upon exercise of  
25 options.  
26  
27

1           330. In addition, Plaintiff alleges that the acts of Defendants Gerzberg and Schneider,  
2 if not the other Individual Defendants, were done maliciously, oppressively, and with intent to  
3 defraud. Plaintiff, on behalf of Zoran, is entitled to punitive and exemplary damages in an  
4 amount to be shown according to proof at the time of trial.

5  
6 **D. COUNT IV: UNJUST ENRICHMENT**  
7 **(Against the Officer Defendants and Insider Selling Defendants)**

8           331. Plaintiff incorporates by reference and realleges each and every allegation  
9 contained above, as though fully set forth herein.

10           332. As a result of the foregoing conduct, including millions of dollars in excess  
11 compensation awarded to the Officer Defendants and Insider Selling Defendants through  
12 backdated stock options, the Officer Defendants and Insider Selling Defendants have been  
13 unjustly enriched at the expense of the Company and its shareholders.

14           333. The Company has been injured by reason of this unjust enrichment. Plaintiff,  
15 derivatively on behalf of Zoran, seeks disgorgement to the Company of all of the backdated  
16 stock options received by the Individual Defendants, as well as the proceeds of any such options  
17 that have been exercised, sold, pledged, or otherwise monetized. Plaintiff, on behalf of Zoran,  
18 has no adequate remedy at law.

19           334. The benefit was accepted by these Defendants under such circumstances that it  
20 would be inequitable for it to be retained without payment. As alleged above, these Defendants  
21 breached their fiduciary duties and/or abused their positions of control and therefore, these  
22 Defendants are not justified in retaining the benefits conferred upon them.  
23  
24  
25  
26  
27

1 **E. COUNT V: CONSTRUCTIVE FRAUD**  
2 **(Against the Individual Defendants)**

3 335. Plaintiff incorporates by reference and realleges each and every allegation  
4 contained above, as though fully set forth herein.

5 336. As fiduciaries to Zoran, the Individual Defendants owed Zoran and its  
6 shareholders a duty of candor and full accurate disclosure regarding the true state of Zoran's  
7 business and assets and their conduct with regard thereto.

8 337. As described above, the Individual Defendants made, or aided and abetted the  
9 making of, misrepresentations and concealments of material facts despite their duties to, *inter*  
10 *alia*, disclose the true facts regarding Zoran.

11 338. As a result of the Individual Defendants' constructive fraud, Zoran has sustained  
12 and will continue to sustain damages and injuries for which it has no adequate remedy at law.

13 339. In addition, the acts of Defendants Gerzberg and Schneider, if not the other  
14 Individual Defendants, were done maliciously, oppressively, and with intent to defraud; and  
15 Plaintiff on behalf of Zoran is entitled to punitive and exemplary damages in an amount to be  
16 shown according to proof at the time of trial.

17 **F. COUNT VI: ABUSE OF CONTROL**  
18 **(Against the Individual Defendants)**

19 340. Plaintiff incorporates by reference and realleges each and every allegation  
20 contained above, as though fully set forth herein.

21 341. By virtue of their positions and financial holdings in Zoran, the Individual  
22 Defendants exercised control over Zoran and its operations, and owed duties as controlling  
23 persons not to use their positions of control within the Company for their own personal interests  
24 and contrary to the interests of Zoran.



1           342. The Individual Defendants' conduct amounts to an abuse of their control in  
2 violation of their obligations to Zoran. The Individual Defendants knowingly aided, encouraged,  
3 cooperated and/or participated in, and substantially assisted the other Defendants in their abuse  
4 of control.

5           343. As a result of the Individual Defendants' abuse of control, Zoran has sustained  
6 and will continue to sustain damages and injuries for which it has no adequate remedy at law.

7           344. In addition, the acts of Defendants Gerzberg and Schneider, if not the other  
8 Individual Defendants, were done maliciously, oppressively, and with intent to defraud.  
9 Plaintiff, on behalf of Zoran, is entitled to punitive and exemplary damages in an amount to be  
10 shown according to proof at the time of trial.  
11

12 **G. COUNT VII: CORPORATE WASTE AND GIFT (Against the Individual**  
13 **Defendants)**

14           345. Plaintiff incorporates by reference and realleges each and every allegation  
15 contained above, as though fully set forth herein.

16           346. By failing to properly consider the interests of the Company and its public  
17 shareholders and by failing to conduct proper supervision, the Individual Defendants, without  
18 any valid corporate purpose, have caused Zoran to waste valuable corporate assets solely for the  
19 financial gain of the Officer and Insider Selling Defendants.  
20

21           347. In return for such wrongful diversion of corporate assets, Zoran received no  
22 consideration, or consideration so disproportionately small, as to lie beyond the range at which  
23 any reasonable person might be willing to accept, rendering the transactions in effect a gift to the  
24 Individual Defendants.  
25  
26  
27

1           348. The conduct of the Individual Defendants, and each of them, was not in good  
2 faith, nor did the Individual Defendants make any judgment, in the exercise of good faith, that  
3 based on the circumstances of which they were fully aware the transactions were worthwhile to  
4 Zoran. Rather the Individual Defendants intentionally and directly diverted Zoran's assets to  
5 their own use or benefit.  
6

7           349. As a result of the Individual Defendants' wrongful conduct, and the wrongful  
8 conduct of each of them, Zoran has suffered and continues to suffer economic losses and non-  
9 economic losses, all in an amount to be determined according to proof at the time of trial. Zoran  
10 is also entitled to disgorgement of the compensation obtained by the Individual Defendants as  
11 stock, options, salaries, bonuses, and other economic and non-economic compensation which  
12 would not have been paid but for their wrongful conduct.  
13

14 **H. COUNT VIII: GROSS MISMANAGEMENT**  
**(Against the Individual Defendants)**

15           350. Plaintiff incorporates by reference and realleges each and every allegation  
16 contained above, as though fully set forth herein.  
17

18           351. By their actions alleged herein, the Individual Defendants abandoned and  
19 abdicated their responsibilities and fiduciary duties with regard to prudently managing the assets  
20 and business of Zoran in a manner consistent with the operations of a publicly held corporation.  
21

22           352. As a direct and proximate result of the Individual Defendants' gross  
23 mismanagement and breaches of duty alleged herein, Zoran has sustained and will continue to  
24 sustain significant damages in the millions of dollars.  
25

26           353. In addition, the acts of Defendants Gerzberg and Schneider, if not the other  
27 Individual Defendants, were done maliciously, oppressively, and with intent to defraud. Thus,  
28

1 Plaintiff, on behalf of Zoran, is entitled to punitive and exemplary damages in an amount to be  
2 shown according to the proof at the time of trial.

3 **I. COUNT IX: RESCISSION**  
4 **(Against the Officer Defendants)**

5 354. Plaintiff incorporates by reference and realleges each and every allegation  
6 contained above, as though fully set forth herein.

7 355. As a result of the acts alleged herein, a number of stock option contracts between  
8 the Officer Defendants and the Company entered into between at least fiscal years 1997 and  
9 2005 were obtained through the Officer Defendants' deceit and abuse of control. Moreover, the  
10 backdated stock options and the shares underlying these options were not duly authorized by the  
11 Board, as was legally required, because they were not authorized in accordance with the terms of  
12 the publicly filed contracts—including the 1993 Plan, the 2005 Plan, and the 2005 Directors  
13 Plan, as well as corresponding stock option agreements and/or employment agreements—  
14 approved by the Company shareholders and filed with the SEC.  
15

16 356. These stock option contracts between the Officer Defendants and the Company  
17 should, therefore, be rescinded, with sums paid under such contracts returned to the Company,  
18 and all such executory contracts cancelled and declared void.  
19

20 **J. COUNT X: VIOLATION OF § 14(a) OF THE EXCHANGE ACT**  
21 **(Against the Audit and Compensation Committee Defendants)**

22 357. Plaintiff incorporates by reference and realleges each and every allegation  
23 contained above, as though fully set forth herein.

24 358. This claim is brought under Section 14 of the Exchange Act, 15 U.S.C. § 78n(a),  
25 and Rule 14a-9, promulgated thereunder, 17 C.F.R. § 240.14a-9.  
26  
27

1           359. Section 14 of the Exchange Act prohibits the solicitation of any proxy in  
2 contravention to the rules promulgated thereunder.

3           360. Rule 14a-9 provides that no proxy solicitation shall be made by means of any  
4 proxy statement or other communication containing “any statement which, at the time and in  
5 light of the circumstances under which it is made, is false or misleading with respect to any  
6 material fact, or which omits to state any material fact necessary in order to make the statements  
7 therein not false and misleading.”

8           361. The Compensation and Audit Committee Defendants issued, caused to be issued,  
9 and participated in the issuance of materially false and misleading statements to shareholders that  
10 were contained in the Company’s 1997 through 2005 Proxy Statements, which, in the respective  
11 sections disclosing executive compensation, misrepresented or failed to disclose the facts set  
12 forth above. By reason of the conduct alleged herein, therefore, each Compensation and Audit  
13 Committee Defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 promulgated  
14 thereunder. The correct information would have been material to the Company’s shareholders in  
15 determining whether to elect Directors to manage the Company. The Proxy Statements were an  
16 essential link in the accomplishment of the continuation of the Individual Defendants’ unlawful  
17 backdating scheme and revelation of the truth would have ended immediately any endorsement  
18 of the Directors’ position, the executive officers’ compensation, and Zoran’s compensation  
19 policies.  
20

21           362. The Company has been damaged as a result of the material misrepresentations  
22 and omissions contained in the Proxy Statements.

23           363. By virtue of the foregoing, the Individual Defendants violated Section 14(a) of the  
24 Exchange Act, and Rule 14a-9 promulgated thereunder.  
25

1 **K. COUNT XI: VIOLATION OF § 10(b) OF THE EXCHANGE ACT**  
2 **(Against Defendants Gerzberg and Schneider)**

3 364. Plaintiff incorporates by reference and realleges each and every allegation  
4 contained above, as though fully set forth herein.

5 365. This claim is brought pursuant to Section 10(b) of the Exchange Act, 15 U.S.C. §  
6 78j, and Rule 10b-5, promulgated thereunder, 17 C.F.R. § 240, 10b-5, against Defendants  
7 Gerzberg and Schneider.

8 366. Defendants Gerzberg and Schneider carried out a plan, scheme and course of  
9 conduct which was intended to and did deceive Zoran and the investing public, as alleged herein.  
10 In addition, in connection with the improper scheme described above, Zoran suffered damages  
11 from, among other things, the issuance of stock and options, resulting liabilities, investigations  
12 and restatement work. In furtherance of this improper scheme, plan and course of conduct,  
13 Defendants Gerzberg and Schneider, and each of them, took the actions set forth herein.  
14

15 367. Defendants Gerzberg and Schneider: (i) employed devices, schemes, and artifices  
16 to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts  
17 necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a  
18 course of business which operated as a fraud and deceit upon Zoran and the public market, in an  
19 effort to enrich themselves through undisclosed manipulative tactics by which they wrongfully  
20 appropriated Zoran options and other compensation in violation of Section 10(b) of the  
21 Exchange Act and Rule 10b-5. These Defendants are sued as primary participants in the  
22 wrongful and illegal conduct and scheme charged herein.  
23

24 368. These Defendants, individually and in concert, directly and indirectly, by the use,  
25 means or instrumentalities of interstate commerce and/or of the mails, engaged and participated  
26

1 in a continuous course of conduct to conceal adverse material information about Zoran's controls  
2 and operations, as specified herein.

3 369. These Defendants employed devices, schemes and artifices to defraud and a  
4 course of conduct and scheme as alleged herein to improperly manipulate and profit from the  
5 backdating scheme and thereby engaged in transactions, practices and a course of business which  
6 operated as a fraud and deceit upon Zoran and the public market.

7  
8 370. These Defendants had actual knowledge of the misrepresentation and omissions  
9 of material facts set forth herein, or acted with reckless disregard for the truth in that they failed  
10 to ascertain and to disclose such facts, even though such facts were available to them. These  
11 Defendants' material misrepresentation and/or omissions were done knowingly or recklessly and  
12 for the purpose and effect of concealing the truth.

13  
14 371. In connection with the unlawful conduct and scheme, as alleged herein, Zoran  
15 suffered damages.

16 372. By virtue of the foregoing, Defendants Gerzberg and Schneider violated Section  
17 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

18 **L. COUNT XII: VIOLATION OF § 20(a) OF THE EXCHANGE ACT**  
19 **(Against Defendants Gerzberg and Schneider)**

20 373. Plaintiff incorporates by reference and realleges each and every allegation  
21 contained above, as though fully set forth herein.

22 374. This claim is brought under Section 20(a) of the Exchange Act, 15 U.S.C.  
23 § 78t(a).

24 375. By virtue of their positions as CEO and CFO of Zoran, respectively, and their  
25 operational and management control of Zoran's business and systematic involvement in the  
26

1 fraudulent scheme alleged herein, Defendants Gerzberg and Schneider each had the power to  
2 influence and control and did influence and control, directly or indirectly, the decision-making  
3 and actions of Zoran, and its employees, including the content and dissemination of the various  
4 statements that Plaintiffs contend are false and misleading. In exercise of this control, Gerzberg  
5 and Schneider actively participated in the backdating scheme as alleged herein, which included  
6 overseeing the manipulation of option grant dates in connection with the Company's distribution  
7 of these securities to employees, including Gerzberg and Schneider themselves, and the  
8 subsequent exercise of the backdated options in violation of Section 10(b) and Rule 10b-5.  
9 Defendants Gerzberg and Schneider had the ability to prevent the issuance of the statements  
10 alleged to be false and misleading or cause such statements to be corrected.  
11

12 376. It is appropriate to treat the Individual Defendants, Defendants Gerzberg and  
13 Schneider, and other employees at Zoran as a group for pleading purposes and to presume that  
14 the materially false, misleading, and incomplete information conveyed in Zoran's public filings,  
15 press releases and other publications are the collective actions of the Individual Defendants,  
16 Defendants Gerzberg and Schneider, and those over whom they had control.  
17

18 377. As a direct and proximate result of these Defendants Gerzberg and Schneider's  
19 wrongful conduct, and the conduct of others at Zoran whom they controlled, Zoran suffered  
20 damages.  
21

22 378. By virtue of their positions as controlling persons, Defendants Gerzberg and  
23 Schneider each violated, and is liable pursuant to, Section 20(a) of the Exchange Act.  
24

#### 25 **IX. PRAYER FOR RELIEF**

26 WHEREFORE, Plaintiff demands judgment, as follows:  
27

1           A.     Against all of the Individual Defendants for the damages sustained by the  
2 Company as a result of their breaches of fiduciary duty;

3           B.     Against the Officer Defendants in an amount equal to the amount by  
4 which they have been unjustly enriched;

5           C.     Imposing on the Officer Defendants a constructive trust on their options  
6 contracts, and on all proceeds that have been received or will in the future be received by them in  
7 respect of such interests or otherwise as the result of their backdated stock option grants;

8           D.     Awarding restitution, disgorgement of all illicit proceeds generated as a  
9 result of the wrongful conduct alleged herein, and punitive damages;

10          E.     Ordering the Individual Defendants to transfer to the Company all  
11 proceeds, directly or indirectly obtained by them as a result of the backdated stock option grants;

12          F.     Awarding Plaintiff his costs and expenses incurred in this action,  
13 including reasonable attorney, accountant, and expert fees, as well as pre-judgment interest; and

14          G.     Such other and further relief as may be just and proper.  
15

16                   **X.     JURY TRIAL DEMANDED**

17           Plaintiff demands a trial by jury.  
18

19                   **CERTIFICATION OF INTERESTED ENTITIES OR PERSONS**

20           Pursuant to Civil Local Rule 3-16, the undersigned certifies that as of this date,  
21 other than the named parties, there is no such interest to report.  
22  
23  
24  
25  
26  
27



DATED this 14th day of March, 2007.

/s/Juli E. Farris

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***Attorneys for Lead Plaintiff  
Gerald del Rosario***

### VERIFICATION

I, Gerald del Rosario, hereby verify that I have reviewed the foregoing Consolidated Verified Derivative Complaint and authorized its filing and that the foregoing is true and correct to the best of my knowledge, information, and belief.

I verify under penalty of perjury that the foregoing is true and correct.

Executed this 13th day of March, 2007.

  
Gerald Del Rosario